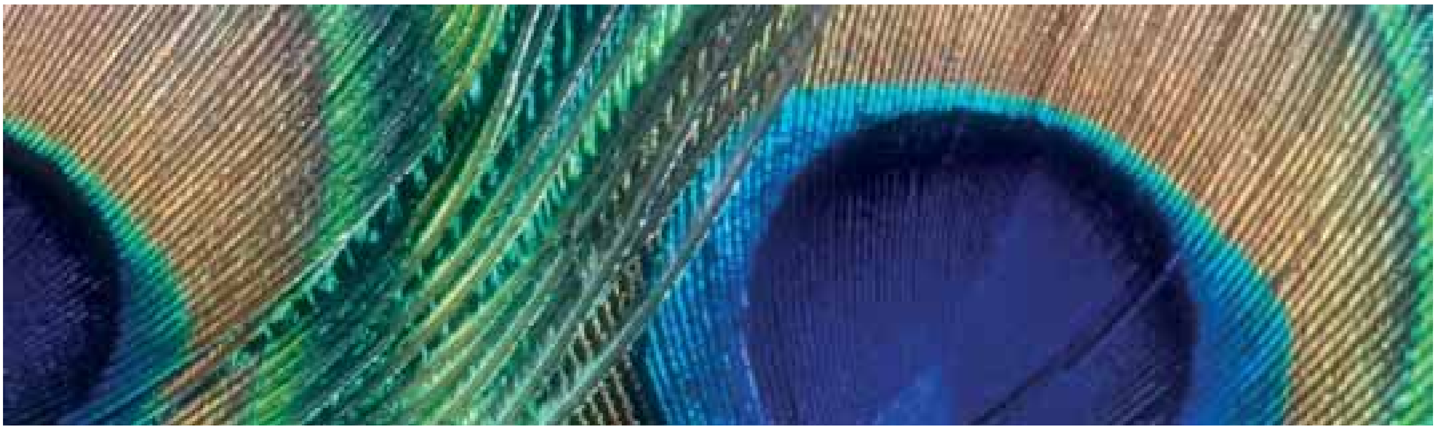
ARBUTHNOT BANKING GROUP PLC

Pillar 3 disclosures for the year ended 31 December 2020



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Background

The Group's lead regulator, the Prudential Regulation Authority ("PRA"), sets and monitors capital requirements for the Group as a whole and for its regulated subsidiaries. The lead regulator adopted the EU Capital Requirement Regulation (575/2013) ("CRR") and the EU Capital Requirement Directive (2013/36/EU) ("CRD"). The requirements of the CRD had to be implemented into UK law and this was done primarily through the Financial Conduct Authority ("FCA") and PRA rulebooks. EU Directive 2019/878 amended the CRD and the PRA and FCA rulebooks were updated to capture the requirements applying from 29 December 2020. The CRR, as a Regulation, was directly applicable in the UK and because this applied before 11pm on 31 December 2020 it has been retained in UK law as 'retained EU legislation'. This Regulation and Directive implemented Basel III in the EU.

Part Eight of the CRR sets out disclosure requirements for banks operating under the regime. The disclosure requirements (Pillar III) aim to complement the minimum capital requirements (Pillar I) and the supervisory review process (Pillar II) and aim to encourage market discipline by allowing market participants to assess key pieces of information on risk exposures and the risk assessment processes of the Group. This document should be read in conjunction with the Group's Annual Report and Accounts for 2020.

Scope

The disclosures have been prepared at a consolidated level for Arbuthnot Banking Group PLC. These disclosures cover the Pillar III qualitative and quantitative disclosure requirements. There are no differences between the basis of consolidation of the Group for accounting and regulatory purposes. The Group contains two subsidiaries authorised to undertake regulated business under the Financial Services and Markets Act 2000. Arbuthnot Latham & Co., Ltd ("AL") is authorised by the PRA and regulated by the FCA and the PRA and is an authorised deposit-taker. It in turn has a subsidiary, Renaissance Asset Finance Limited ("RAF"), which is regulated by the FCA.

AL, the Group's regulated banking subsidiary, reports to the PRA on a solo-consolidated basis. The solo-consolidated group includes RAF and the unregulated subsidiaries Arbuthnot Commercial Asset Based Lending Ltd ("ACABL") and Arbuthnot Specialist Finance Limited ("ASFL").

Disclosure Policy

The Pillar III disclosures will be issued at a minimum on an annual basis. The disclosures will be as at the Accounting Reference Date ("ARD") of 31 December.

The Pillar III disclosures are subject to internal review procedures broadly consistent with those undertaken for unaudited information published in the Annual Report. The information contained in this document has not been audited by the Group's external auditors, except to the extent it is deemed to be equivalent to those made under accounting or listing requirements.

The Pillar III disclosures have been prepared purely for explaining the basis on which the Group has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement on the Group.

Overview

Media and location

The report will be published on the Arbuthnot Banking Group PLC corporate website (www.arbuthnotgroup.com).

Regulatory developments

The EU published Guidelines on disclosure requirements under Part Eight of the CRR in August 2017. Where required or appropriate these are considered within the Group's Pillar III disclosure document. The Group is below the PRA's thresholds for reporting the COVID-19 Pillar III disclosure templates.

In May 2019 the European Commission adopted a package amending the current CRR and CRD. This package is commonly referred to as CRR2 and the EU changes include, from June 2021, a binding leverage ratio requirement of 3% and a net stable funding ratio requirement of 100%.

The changes to the CRR were not implemented in the EU before the end of the Brexit transition period and so the rules remain to be implemented in the UK. The PRA published a Consultation Paper in February 2021 proposing rules for the implementation of those Basel III reforms which will make up the UK's equivalent of the EU's CRR2. The PRA's proposed implementation date is 1 January 2022.

The Basel Committee on Banking Supervision published its Basel III post-crisis regulatory reforms on 7 December 2017. These reforms include the revised standardised approach to credit risk and have a Basel implementation date of 1 January 2023. The original implementation date was 1 January 2022 but the Basel Committee announced a 1 year delay on 27 March 2020 in response to COVID-19. The timing of the application of these reforms to the Group is dependent on their implementation into UK law.

Principal governing bodies

Arbuthnot Banking Group has a strong and effective corporate governance framework. The Board endorses the principles of openness, integrity and accountability which underlie good governance and takes into account the provisions of the UK Corporate Governance Code, published by the Financial Reporting Council in July 2018 (“the FRC Code”), in so far as they are considered applicable to and appropriate for it, given its size and circumstances, and the role and overall shareholding of its majority shareholder. The Group’s banking subsidiary, Arbuthnot Latham & Co., Limited, is authorised by the PRA and regulated by the FCA and by the PRA and its Dubai Branch is regulated by the Dubai Financial Services Authority. One of its subsidiaries, Renaissance Asset Finance Limited, is regulated by the FCA. Accordingly, the Group operates to the high standards of corporate accountability and regulatory compliance appropriate for such a business.

The Group is led by the Board which comprises seven members: the executive Chairman, two other executive directors, Andrew Salmon and James Cobb, and four independent non-executive directors who thereby constitute at least half of the Board in line with the Code. The Board sets the long-term focus and customer-oriented culture of the Group.

The Board of directors has overall responsibility for the Group’s system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against the risk of material misstatement or loss.

The Directors and senior management of the Group have formally adopted a Group Risk and Controls Policy which sets out the Board’s attitude to risk and internal controls. Key risks identified by the Directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board also receives regular reports on any risk matters that need to be brought to its attention.

Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

Strategy/Business model – Arbuthnot Banking Group

Arbuthnot Banking Group PLC is a dual listed AIM and AQSE Growth Market company that has a free float of 42.7% with the remaining 57.3% of shares owned by the Chairman Sir Henry Angest (54.7%) and held in the form of Treasury shares (2.6%) that have been purchased by the Company over time.

The Holding Company has investments in a number of subsidiaries several of which are either dormant or have no active business. The main trading subsidiary is Arbuthnot Latham & Co., Ltd and the Group also had a 9.76% investment in Secure Trust Bank PLC (“STB”) as at 31 December 2020, which is accounted for as a financial investment.

The Group function is represented by the Arbuthnot Banking Group PLC Board, but on a day to day basis it is the Executive Directors i.e. Arbuthnot Banking Group Chairman & Chief Executive, Group Chief Operating Officer, and Group Finance Director, who ensure that the Bank carries out its business firstly, in accordance with the Group's well laid out philosophy, then as per their strategy and budgets. Secondly, they remain in line with their risk appetites as articulated, in particular, with regard to the regulatory requirements. They also act as the interface to the regulators to ensure that the good relations with regulatory bodies are maintained. Finally, to protect the interests of Arbuthnot Banking Group's shareholders.

At a strategic level Arbuthnot Banking Group can be seen as determining and agreeing the optimal strategies for the businesses to grow, while making the best use of the finite resources available to the management team not least of which is capital.

Strategy/Business model – Arbuthnot Latham & Co., Ltd

The principal business of Arbuthnot Latham & Co., Ltd and its subsidiaries is private banking, including wealth management and planning, commercial banking, asset financing, asset based lending and specialist finance. The Bank's strategy is to grow its existing business units, and continue to diversify its income streams into other areas of financial services.

The Bank launched Arbuthnot Direct in 2019. The online service targeted depositors outside of the Bank's traditional high net worth client base and offers fixed term deposits from £10,000 up to £250,000 with a range of terms. The Arbuthnot Direct proposition diversifies the Bank's sources of funding.

The Group was quickly accredited to the Government sponsored lending schemes and extended £21m of Coronavirus Business Interruption Loans ("CBILs") and £12m Bounce Back Loans ("BBLs") to our clients to help them navigate their way through the cash flow issues that lockdowns bring. We also supported our clients with payment holidays.

Banking

AL provide Private Banking and Commercial Banking services to its clients.

The core Private Banking service looks to establish long term relationships with its clients by providing a high quality personalised service.

The Commercial Banking service was started in September 2015, with coverage initially aimed at London and the South East but subsequently extending to the South West and North West. The commercial bankers are co-located with the private bankers to enable synergies to be captured across the business units.

The Commercial Banking service provides a high quality relationship service to commercial clients, with sector coverage of media, real estate financing and trading businesses including healthcare, professional practises and other specialist areas.

Banking is comprised of current accounts, deposit accounts, loans, overdrafts and foreign exchange. The two main business lines within this are lending and deposits.

Lending

The Bank extends credit to borrowers, who are usually high net worth, either in their own names or to their operating companies. The lending is done on a secured basis with the usual security being property, but other assets are sometimes taken as security. Additionally, borrowers are asked to give personal guarantees to support the loans.

The Bank lends at a conservative loan to value ("LTV") and for residential property will generally be below 70%. The average loan to value of our property backed lending book is 53.4%. With credit mitigation taken into account, as a result of the collateral received, the maximum exposure that AL can take is up to c£47m. This limit is determined from the CRR definition of 'eligible capital' which comprises Tier 1 capital and a limited amount of Tier 2 capital. The PRA has consulted, consistent with the Basel regime and EU CRR2, on implementing a large exposures limit based on Tier 1 only. Under this definition the maximum that AL could lend, after credit risk mitigation, would be c£41m.

The rates of interest are variable based upon either the Bank of England Bank rate, an external bench mark, or the AL base rate plus a margin. Depending on the complexity of the loans, fees may be charged either at origination, repayment or both.

The impairment loss rate on customer loans in 2020 was 0.14%.

Deposits

The Bank raises deposits from its clients via different products:

- Call deposits - these are deposits that are residual, as part of the client's floating balance on their current account.
- Term or notice deposits - these have an agreed rate for an agreed term, which provides a good source of stable funding to the Bank.

These deposits are supplemented by funding from other sources including:

- SIPP deposit money received from wealth management platforms;
- Cash balances not invested in other assets by the Investment Management business (typically 5% of Assets under Management);
- Funds drawn from the Term Funding Scheme ("TFS"); &
- Arbuthnot Direct deposit platform. This enables the Group to provide deposit products directly to the retail market via an internet platform, with rates advertised on the best buy tables.

Wealth Planning

The Wealth Planning service provides bespoke financial strategies to the Bank's clients. These strategies are developed after understanding the client's long-term financial aspirations and plans, along with their attitude to risk. In general, the strategies are focused on capital and wealth preservation. The wealth planning service is offered on a restricted basis

AL's approach generates a trusted advisor standing which enables the Bank to deepen its relationships with clients and ensures a high degree of stability in its client base and product usage.

Arbuthnot Latham was the first Private Bank in the UK to achieve Corporate Chartered status. This proves that all of the Wealth Planners in the Bank have qualified as Chartered Financial Planners and that the service has reached the highest levels of capability and ethical practice.

Investment Management
This service comprises discretionary fund management and alternative investments. Again, after careful consideration with the client, a suitable investment strategy is developed to ensure that each client's specific investment objectives are met. The business is also considered to be "whole of market" as client funds are not invested within in-house products, but instead a portfolio is developed on a "fund of funds" basis.

Mortgage Portfolios
In December 2014 the Bank completed the purchase of a residential mortgage portfolio from the administrators of the Dunfermline Building Society for a discounted price of £106m. The Bank has decided to sell this portfolio because the yield has declined and it was becoming uneconomical to service. The sale completed on 26 February 2021.

In August 2019 the Group purchased a residential mortgage portfolio for cash consideration of £258m. The portfolio consisted of 20% buy-to-let with the remainder owner occupied, with an average loan to value of 67% for the whole portfolio.

The portfolios are closed to new business, and each have a proven track record of repayments and are supported by geographically diversified collateral. Both portfolios operate on an outsourced service provider model.

Renaissance Asset Finance ("RAF")
In December 2016, Arbuthnot Latham reached agreement with the shareholders of Renaissance Asset Finance to acquire the company, with the transaction completing in April 2017.

RAF lends to SME businesses and High Net Worth Individuals to support their investment in new or used capital equipment and vehicles. Assets financed include plant and machinery, prestige and classic cars, commercial vehicles, taxis and business-critical soft assets. RAF also raises cash for its clients by re-financing their assets. The main funding products include hire purchase and leasing with finance periods normally between three and five years

RAF is authorised to undertake regulated business under the Financial Services and Markets Act 2000 and is regulated by the FCA.

Arbuthnot Commercial Asset Based Lending ("ACABL")
ACABL launched in May 2018. It is a specialist asset based lender, focused on delivering working capital and growth finance facilities to SMEs and mid-market corporates. It builds long-term relationships with clients, supporting their objectives throughout the business and economic cycle.

ACABL provides full asset based lending facilities plus cash flow loans in support of acquisition, refinancing, cash-out and turnaround scenarios. It delivers creative deal structures to tight timeframes and support businesses throughout their lifecycles, helping them drive their continued success. The business has been founded on strong established relationships with key business introducers, including the leading corporate advisory, accountancy firms and Private Equity houses.

ACABL is unregulated.

Arbuthnot Specialist Finance Limited ("ASFL")

ASFL provides a full range of property finance solutions including purchase, refinance, light and heavy refurbishment and construction finance. Through ASFL's collaborative approach with clients and introducers, it offers tailored lending which can be structured and designed around clients' needs. The specialist lending services is delivered with all the attention of a private banking relationship alongside the ability to deliver within tight timescales with certainty of execution. Dedicated Relationship Managers and Underwriters with significant real estate experience support clients through the transaction and onto the next project.

ASFL is a provider of short term funding loans in the unregulated specialist property market, including Bridging and Development Loans. ASFL's first customer loan was approved in Q1 2019.

ASFL is unregulated.

Asset Alliance Group Holdings Limited

On 10 December 2020 the Bank announced it had agreed to purchase the entire share capital of Asset Alliance Group Holdings Limited.

Asset Alliance provides vehicle finance and related services, predominantly in the truck & trailer and bus & coach markets. Operating from five locations, it is the UK's leading independent end-to-end specialist in commercial vehicle financing and has over 4000 vehicles under management. As at 31 August 2020 Asset Alliance had assets for lease with a net book value of approximately £150m.

The Bank has received all necessary regulatory approvals and the acquisition is expected to complete on 31 March 2021.

Principal risks

The Group regards the monitoring and controlling of risks and uncertainties as a fundamental part of the management process. Consequently, senior management are involved in the development of risk management policies and in monitoring their application.

The principal risks inherent in the Group's business are reputational, macroeconomic and competitive environment, strategic, credit, market, liquidity, operational, cyber, conduct and, regulatory and capital.

Reputational

Reputational risk is the risk to the Group from a failure to meet reasonable stakeholder expectations as a result of any event, behaviour, action or inaction by ABG itself, its employees or those with whom it is associated. This includes the associated risk to earnings, capital or liquidity.

ABG seeks to ensure that all of it businesses act consistently with the seven corporate principles as laid out in the Annual Report and Accounts. This is achieved through a central Risk Management framework and supporting policies, the application of a three-lines of defence model across the Group and oversight by various committees. Employees are supported in training, studies and other ways and encouraged to live out the cultural values within the Group of integrity, energy and drive, respect, collaboration and empowerment. In applying the seven corporate principles, the risk of reputational damage is minimised as the Group serves its shareholders, customers and employees with integrity and high ethical standards.

Macroeconomic and competitive environment

The Group is exposed to indirect risks that may arise from the macroeconomic and competitive environment.

Coronavirus

The COVID-19 pandemic has had, and continues to have, a material impact on all businesses around the world and the markets in which they operate. There are a number of factors associated with the pandemic and its impact on global economies that could have a material adverse effect on (among other things) the profitability, capital and liquidity of financial institutions.

To ensure an appropriate response to the pandemic, management scrutinised key risks emerging from the crisis and their impact on the Group's risk profile. The Board's discussions focused on operational resilience, liquidity and funding considerations, customer vulnerability, and the impact of material increases in forbearance requests on the Group's credit portfolios and on its operational capacity.

The pandemic has caused disruption to the Group's clients, suppliers and employees globally. The markets in which the Group operates have implemented severe restrictions on the movement of their respective populations, with a resultant significant impact on economic activity. These restrictions are being determined by the governments of individual jurisdictions (including through the implementation of emergency powers) and impacts (including the timing of implementation and any subsequent lifting of restrictions) may vary from jurisdiction to jurisdiction.

Schemes have been initiated by the Bank of England, national governments and regulators to provide financial support to parts of the economy most impacted by the COVID-19 pandemic. These schemes have been designed and implemented at pace, which has allowed the Group to continue meeting clients' requirements with employees monitoring operational issues which may arise in their implementation.

Furthermore, the Group relies on models to support a broad range of business and risk management activities, including informing business decisions and strategies, measuring and limiting risk, valuing exposures (including the calculation of impairment), conducting stress testing and assessing capital adequacy. Management regularly meet to discuss the impact of COVID-19 and review data to mitigate any potential negative effects.

The details of how these schemes will impact the Group's clients in the long term remains uncertain at this stage. However, certain actions (such as the introduction of payment holidays for certain lending products or the cancellation or waiver of fees associated with certain products) may impact the effective interest rate earned on certain of the Group's portfolios and fee income being earned on certain products.

The significant business risks that may arise from the economic shock in addition to the reduction in interest rates are:

a) Increased credit risk as borrowers are unable to continue to meet their interest obligations as they fall due. It is also currently unclear precisely how the withdrawal of the Government's announced package of measures will affect this clear risk.
b) The uncertainty in the economy could result in a significant fall in the collateral values of our security held against the loans. At the beginning of the pandemic the Royal Institute of Charter Surveyors ("RICS") issued a statement suggesting that any valuations they may produce in the current environment would be subject to a warning that the values vary significantly. However, property prices have held up and transaction volumes and other relevant evidence is starting to return to levels adequate to base valuation opinions on. Also, the average loan to value of our property backed lending book is 53.4%, so to have any material impact, this fall in collateral values would have to be severe and prolonged.
c) A prolonged reduction in business activity will affect our ability to generate new business opportunities, in which case repayments in our current lending portfolios will be greater than new originations, which will lead to an overall fall in the Group's customer lending balances and the associated revenue that this generates. At the start of the pandemic the Group significantly reduced its credit appetite due to uncertainty in the global economy, which resulted in the loan book remaining flat from the prior year. However, since re-instating credit appetite to pre-pandemic levels in the third quarter, the Group has generated a significant pipeline of business.
d) The economic shock could also lead to a fall in valuations in the Group's investment properties and those properties held in inventory. As mentioned under point (b) above, transaction volumes are starting to return and property prices have held up since the start of the pandemic more than a year ago.
e) As the revenues earned by the Group's Investment Management business are directly linked to the balances managed on behalf of our customers, any reduction in these values due to market movements will have a corresponding impact on these revenues. AUM initially reduced to close the first half 3% down from what was reported at 31 December 2019, however, despite market volatility, the Wealth Management team continued to attract criteria clients and AUM closed the year 4% ahead of the prior year.

Brexit

The Brexit transition period came to an end on 31 December 2020 and the EU and UK agreed the Trade and Cooperation Agreement on 24 December 2020, which is provisionally applicable from 1 January 2021. There is still some uncertainty around the long term consequences of Brexit. The Group's only overseas operation in Dubai is in the process of being closed, so the vast majority of the Group's income and expenditure is based in the UK. The Group will continue to monitor the implications of Brexit on the wider economy as the future relationship with the EU develops.

Climate change

Climate change presents financial and reputational risks for the banking industry. The Board consider Climate change a material risk as per the Board approved risk appetite framework which provides a structured approach to risk taking within agreed boundaries. The assessment is proportional at present but will develop over time as the Group generates further resources and industry consensus emerges. The assessment is maintained by the Chief Risk officer and has been informed by the ICAAP review and workshops for employees.

Whilst it is difficult to assess how climate change will unfold, the Group is continually assessing various risk exposures. The UK has a legally binding target to cut its greenhouse gas emissions to “net-zero” by 2050. There is growing consensus that an orderly transition to a low-carbon economy will bring substantial adjustments to the global economy which will have financial implications while bringing risks and opportunities.

The risk assessment process has been integrated into existing risk frameworks and will be governed through the various risk governance structures including review and recommendations by the Arbuthnot Latham Risk Committee. Arbuthnot Latham governance has been assessed against the Task Force on Climate-related Financial Disclosures’ (“TCFD”) recommended governance disclosures and where appropriate the FCA/PRA guidance as per the Supervisory Statements.

In accordance with the requirements of the PRA’s Supervisory Statement ‘Enhancing banks’ and insurers’ approaches to managing the financial risks from climate change’, the Group has allocated responsibility for identifying and managing the risks from climate chance to the relevant existing Senior Management Function. The Bank is continuously developing a suitable strategic approach to climate change and the unique challenges it poses.

The FCA have issued ‘Climate Change and Green Finance: summary of responses and next steps’. In addition to the modelling of various scenarios and various governance reviews, Arbuthnot Latham will continue to monitor requirements through the relationship with UK Finance.

Strategic risk

Strategic risk is the risk that the Group’s ability to achieve its corporate and strategic objectives may be compromised. This risk is particularly important to the Group as it continues its growth strategy. However, the Group seeks to mitigate strategic risk by focusing on a sustainable business model which is aligned to the Group’s business strategy. Also, the Board of Directors meets once a year to hold a two day board meeting to ensure that the Group’s strategy is appropriate for the market and economy.

Credit risk: overview

Credit risk is the risk of loss arising from a customer or counterparty failing to meet their financial obligations to the Group as and when they fall due. Credit risk generates the largest Pillar 1 regulatory capital requirement for the Group.

The Group has adopted the Standardised Approach to credit risk under the EU CRR, and has nominated Moody’s Investor Services as its external credit assessment institution (“ECAI”).

Credit risk: loan books

The Company and Group take on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Company and Group’s portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit risk is managed through the Credit Committee of the banking subsidiary.

The Committee regularly reviews the credit risk profile of the Group, with a clear focus on performance against risk appetite statements and risk metrics. The Committee considered credit conditions during the year, and in particular the impact of the COVID-19 crisis on performance against both credit risk appetite and a range of key credit risk metrics.

The Company and Group structure the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to products, and one borrower or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The limits are approved periodically by the Board of Directors and actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral, and corporate and personal guarantees.

The economic environment remains uncertain and future impairment charges may be subject to further volatility (including from changes to macroeconomic variable forecasts) depending on the longevity of the COVID-19 pandemic and related containment measures, as well as the longer term effectiveness of central bank, government and other support measures.

COVID-19 has created an unprecedented challenge for ECL modelling, given the severity of economic shock and associated uncertainty for the future economic path coupled with the scale of government and central bank intervention and COVID-19 relief mechanisms that have altered the relationships between economic drivers and default.

The Group has attempted to leverage stress test modelling insights to inform ECL model refinements to enable reasonable estimates. Management review of modelling approaches and outcomes continues to inform any necessary adjustments to the ECL estimates through the form of in-model adjustments, based on expert judgement including the use of available information. Management considerations included the potential severity and duration of the economic shock, including the mitigating effects of government support actions, as well the potential trajectory of the subsequent recovery. The Group also considered differential impacts on asset classes, including pronouncements from regulatory bodies regarding IFRS 9 application in the context of COVID-19, notably on significant increase in credit risk (SICR) identification.

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral to secure advances, which is common practice. The principal collateral types for loans and advances include, but are not limited to:

- Charges over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities;
- Charges over other chattels; and

- Personal guarantees

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In order to minimise any potential credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Repossessed collateral, not readily convertible into cash, is made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness, or held as inventory where the Group intends to develop and sell in the future. Where excess funds are available after the debt has been repaid, they are available either for other secured lenders with lower priority or are returned to the customer.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The key inputs into the measurement of the ECL are:

- assessment of significant increase in credit risk
- future economic scenarios
- probability of default
- loss given default
- exposure at default

Credit risk: treasury assets

The Group has exposures to the Bank of England, Central Governments, multilateral development banks and a range of banks and building societies within its treasury portfolio. This includes bank deposits, Certificates of Deposit, money market instruments, floating rate notes, covered bonds and Government securities. These exposures arise due to the placement in the market of surplus client cash which is held under a banking relationship.

These treasury assets are held for liquidity purposes and are with highly rated counterparties. They have a minimum rating of credit step quality 2 or higher (as mapped from Moody's credit rating and using mapping tables published by the Regulator).

Policy limits and approved counterparties are formally approved by the Board annually. Counterparty exposures are monitored against limits by the Treasury and Finance departments on a daily basis.

Concentration risk

Management assesses the potential concentration risk from a number of areas including:

- product concentration
- geographical concentration

- sector concentration
- single name concentration

Due to the significant collateral held against the loan book, the Directors do not consider there to be a potential material exposure arising from concentration risk.

Market risk

Market risk arises in relation to movements in interest rates, currencies, property and equity markets. The Group's treasury function operates mainly to provide a service to clients and does not take significant unmatched positions in any market for its own account. As a result, the Group's exposure to adverse movements in interest rates and currencies is limited to interest earnings on its free cash and interest rate re-pricing mismatches. The Group actively monitors its exposure to future changes in interest rates.

The Group is exposed to changes in the market value of its properties. The current carrying value of Investment Property is £6.6m and properties classified as inventory are carried at £88m. Any changes in the market value of the property will be accounted for in the Income Statement for the Investment Property and could also impact the carrying value of inventory, which is at the lower of cost and net realisable value. As a result, it could have a significant impact on the profit or loss of the Group.

The Group has a 9.76% interest in Secure Trust Bank. This is currently recorded in the Group's balance sheet as a Financial Investment. The carrying value is adjusted to market value at each balance sheet date, according to the share price of Secure Trust Bank. Any gains or losses that arise are recorded in Other Comprehensive Income.

Interest rate risk

Interest rate risk is the potential adverse impact on the Group's future cash flows from changes in interest rates, and arises from the differing interest rate risk characteristics of the Group's assets and liabilities. In particular, fixed rate savings and borrowing products expose the Group to the risk that a change in interest rates could cause either a reduction in interest income or an increase in interest expense relative to variable rate interest flows.

The Group seeks to "match" interest rate risk on either side of the Statement of Financial Position. However, this is not a perfect match and interest rate risk is present in:

- Money market transactions of a fixed rate nature;
- fixed rate loans;
- fixed rate savings accounts; and
- floating rate products dependent on when they re-price at a future date.

Interest rate risk is measured throughout the maturity bandings of the book on a parallel shift scenario for a 200 basis points movement. Interest rate risk is managed to limit value at risk to be less than £0.5m capped at negative 0.1%. The current position of the balance sheet is such that it results in a favourable impact on the economic value of equity of £2.4m (2019: £3.1m) for a positive 200bps shift and an adverse impact of £0.1m (2019: £1.2m) for a negative 200bps movement capped at negative 0.1%.

Securitisation risk

The Group does not invest in, originate or sponsor any securitisation transactions. Therefore, the Board has concluded that securitisation risk is not applicable to the Group.

Liquidity risk

Liquidity risk is the risk that the Group, although solvent, either does not have sufficient financial resources to enable it to meet its obligations as they fall due, or can only secure such resources at excessive cost.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The liquidity requirements of the Group are met through withdrawing funds from its Bank of England Reserve Account to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The Group has formal governance structures in place to manage and mitigate liquidity risk on a day to day basis. The Board of AL sets and approves the liquidity risk management strategy. The Assets and Liabilities Committee ("ALCO"), comprising senior executives of the Group, monitors liquidity risk. Key liquidity risk management information is reported by the finance teams and monitored by the Chief Executive Officer, Finance Director and Deputy CEO on a daily basis. The ALCO meets monthly to review liquidity risk against set thresholds and risk indicators including early warning indicators, liquidity risk tolerance levels and Internal Liquidity Adequacy Assessment Process ("ILAAP") metrics.

The PRA requires the Board to ensure that the Group has adequate levels of liquidity resources and a prudent funding profile, and that it comprehensively manages and controls liquidity and funding risks. The Group maintains deposits placed at the Bank of England and highly liquid unencumbered assets that can be called upon to create sufficient liquidity to meet liabilities on demand, particularly in a period of liquidity stress.

AL has a Board approved ILAAP, and maintains liquidity buffers in excess of the minimum requirements. The ILAAP is embedded in the risk management framework of the Group and is subject to ongoing updates and revisions when necessary. At a minimum, the ILAAP is updated annually. The Liquidity Coverage Ratio ("LCR") regime has applied to the Group from 1 October 2015, requiring management of net 30 day cash outflows as a proportion of high quality liquid assets. The actual LCR at 237% (2019: 290%) has significantly exceeded the regulatory minimum of 100% throughout the year, following the steps taken by the Group to respond to possible future liquidity constraints arising from the COVID-19 pandemic. There has been an increase in deposits of 13% which has accordingly improved the Bank's liquidity.

The Group is exposed to daily calls on its available cash resources from current accounts, maturing deposits and loan draw-downs. The Group maintains significant cash resources to meet all of these needs as they fall due. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates.

Operational risk

Operational risk is the risk that the Group may be exposed to financial losses from conducting its business. The Group's exposures to operational risk include its Information Technology ("IT") and Operations platforms. There are additional internal controls in these processes that are designed to protect the Group from these risks.

During the year there was significant focus on the potential operational risks arising from the change in working practices due to the pandemic, particularly the move to home-working in order to protect employees and support clients through the crisis. Management attention also focused heavily on operational resilience to ensure that planning, controls and operational activities remained robust and appropriate. The Bank ensured that all employees had access to equipment to complete their work with all employees working from home for the majority of the year.

The Group's control environment was continually monitored to ensure that the challenges posed by adapting to the impact of COVID-19 were safely addressed. There was also continued oversight of the Group's preparations for the end of the transition period, following the UK's exit from the EU, to ensure that processes and systems are appropriate to ensure continuity of service for customers.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of the Internal Audit reviews are discussed with senior management, with summaries submitted to the Arbuthnot Banking Group Audit Committee.

The Group has adopted the Basic Indicator Approach for calculating the Pillar 1 capital requirements for operational risk.

Cyber risk

Cyber risk is an increasing risk for the Group within its operational processes. It is the risk that the Group is subject to some form of disruption arising from an interruption to its IT and data infrastructure. The Group regularly tests the infrastructure to ensure that it remains robust to a range of threats, and has continuity of business plans in place including a disaster recovery plan.

Conduct risk

As a financial services provider we face conduct risk, including selling products to customers which do not meet their needs, failing to deal with clients' complaints effectively, not meeting clients' expectations, and exhibiting behaviours which do not meet market or regulatory standards.

The Group adopts a low risk appetite for any unfair customer outcomes. It maintains clear compliance guidelines and provides ongoing training to all employees. Periodic spot checks, compliance monitoring and internal audits are performed to ensure these guidelines are followed. The Group also has insurance policies in place to provide some cover for any claims that may arise.

Regulatory and capital risk

Regulatory and capital risk includes the risk that the Group will have insufficient capital resources to support the business and/or does not comply with regulatory requirements. The Group adopts a conservative approach to managing its capital. The Board of Arbuthnot Latham approves an Internal Capital Adequacy Assessment Process (ICAAP) annually, which includes the performance of stringent stress tests to ensure that capital resources are adequate over a three year horizon. Capital and liquidity ratios are regularly monitored against the Board's approved risk appetite as part of the risk management framework.

Regulatory change also exists as a risk to the Group's business. Notwithstanding the assessments carried out by the Group to manage the regulatory risk, it is not possible to predict how regulatory and legislative changes may alter and impact the business. Significant and unforeseen regulatory changes may reduce the Group's competitive situation and lower its profitability.

Statement of Risk Appetite

Introduction

Arbuthnot Banking Group has benefited from continuity of management over a long period of time. The Chairman and Chief Executive of the Group has held office for 35 years, and the Chief Operating Officer has been with the Group for 23 years. The executive team share a philosophy of management which emphasises prudence, stability and a long-term approach to the creation of shareholder value.

The Group conducts its business in accordance with its Corporate Philosophy, which is reproduced annually in its Report and Accounts as shown below:

1. Arbuthnot serves its **shareholders**, its **customers** and its **employees** with **integrity** and **high ethical standards**. This is demonstrated in a **progressive dividend** policy, in **fair pricing** and in **pay for performance**.

2. Arbuthnot attaches great importance to **good relations** with customers and business partners, and treating them **fairly and promptly**. Arbuthnot believes in **reciprocity**.

3. Arbuthnot is **independent, and profit and growth oriented** while maintaining a **controlled risk profile**.

4. Arbuthnot's business is conducted in an **innovative, flexible** and **entrepreneurial** manner, with an **opportunistic** and **counter-cyclical** attitude.

5. Arbuthnot's approach is based on **diversification** to spread the risk, a **long-term view** to further growth, **empowerment of management** and a culture of **rewards for achievements** to engender loyalty.

6. Arbuthnot does not sacrifice **long term prospects** for short term gains – nor sacrifice **stability** for quick profits, and it will never put the whole company at **risk**.

7. Ultimately, the success of Arbuthnot depends on the **teamwork, commitment**, and **performance** of its employees, combined with the **determination** to win.

In formulating and applying this philosophy the Board has drawn on the experience of the Chairman and other senior bankers currently and formerly on the Board regarding the risks to small banks and how they can be managed to ensure long-term stability. The key elements involved in applying this philosophy may be summarised as:

- maintain a diversified portfolio of businesses to achieve a balance of risk in all phases of the cycle
- maintain a strong balance sheet, placing a particular emphasis on liquidity and security of funding
- maintain a conservative risk profile, which includes careful lending

To achieve this the Group has maintained a level of deposits significantly greater than was necessary to finance its lending. In this way the Group has sacrificed profits each year to ensure stability.

Overall Risk Appetite Statement

The business plan is prepared on the basis that the Group takes a balanced view towards risk and return. The business plan includes a number of lines of business within the trading subsidiary. The planned growth in the Group over the medium term is well spread across these business lines. The Board will approve the risk appetite statement and will review the appropriateness of the risk appetite at least annually.

ABG generally has a low risk appetite fully aligned with the scale and nature of the business model. The Group is exposed to liquidity, credit and market risks as a consequence of its activities and the Group chooses to accept these risks subject to the constraints and framework established in this risk appetite statement. The Risk Appetite Statement is for ABG to:

- Achieve its stated business objectives as outlined in the Board approved business plan.
- Maintain a comprehensive credit risk management framework focused on UK consumer finance, SME and High Net Worth secured lending.
- Maintain acceptable levels of interest rate risk exposure.
- Invest surplus deposits with highly rated counterparties or deposit within the Bank of England reserve account.
- Maintain robust capital and liquidity levels under “normal” and “stressed” conditions.
- Manage balance sheet and market risks to ensure minimal earnings volatility.
- Operate with low tolerances for Operational and Compliance risk exposures by ensuring that staff are properly trained, procedures are documented and supervision is in place to ensure that the controls continue to operate effectively.
- Ensure full compliance with the spirit (and letter) of all legal and regulatory requirements.
- Never allocate capital to an exposure such that any resultant losses could reduce the Group’s capital to a level of insolvency (never “bet the shop”).

AL has a clear policy regarding credit and liquidity which is set out in a policy document approved by the Board. These policies deal with all relevant parameters with regard to business quality, limits and procedures, and specify that any departure from the approved policy may only be made with the approval of the Board or an executive or group of executives to whom the Board delegates such authority. Also the Risk appetite of the individual Bank Board and the overall Group for the financial risks (both balance sheet and earnings) can be further articulated by way of the annual budget and three year plan. This shows the lending and proportion of lending in each asset class that the bank is prepared to undertake in the next three years. This is approved by the AL and Group Board.

Risk Management

AL Risk Management Policy

The Risk Management Policy outlines the risk management framework for AL and its subsidiaries.

AL Risk Management Framework

The Risk Management Framework diagram below shows an enterprise-wide framework for the robust, consistent and disciplined management of risk with the aim of facilitating the achievement of the organisation's corporate strategy and strategic objectives.

The Risk Management framework ensures clear accountability and coverage across the organisation for all material risk categories.

AL Risk Appetite Statement

The Risk Appetite Statement is a Board-approved document describing the aggregate types and extent of risk the organisation is willing to assume or wishes to avoid, to achieve its strategic objectives and delivering its business plan in both normal and stressed conditions. The AL Group risk appetite reflects the Arbuthnot corporate philosophy.

Supporting the overarching Risk appetite statement is the AL Risk Appetite Framework. This details qualitative risk appetite statements and quantitative risk tolerances in a consistent format for each Principal Risk.

Risk Appetite Statements: Principal Risks
Prudential Risk: Capital Adequacy Risk

Risk appetite	
Definition	Capital adequacy risk is the risk that the Bank's capital will fall below its base capital requirement (regulatory and/ or statutory). The key characteristic of capital is that it represents the Bank's ability to absorb losses.
Qualitative statement of AL risk appetite	Capital stability • Sufficient capital to be in place to ensure that the Bank remains solvent in all reasonable scenarios, after mitigating actions. • Capital resources to be of a high quality. • Balance sheet and market risks managed to ensure minimal earnings volatility. Detect and Respond • Robust reporting and forecasting processes maintained. • Suitable governance arrangements maintained and regularly tested on how AL respond to a stress situation both in survival and rebuild phases. Recovery • Capital recovery options documented.

How we manage the risk	
Oversight Committee	ALCO
• The risk appetite statement provides guidance for accepted levels of capital risk that arises as part of day to day business activities • The ICAAP documents the approach to managing capital adequacy risk. The AL Board approves the ICAAP at least annually, or more frequently, if changes in the business, strategy, nature or scale of AL's activities or operational environment suggest that the current level of capital resources are no longer adequate. • ALCO, Risk Committee and AL Board oversight capital. • The Board approved AL's Recovery Plan and Incident Management Plan that detail the governance arrangements and options available to AL to recover financial strength, in terms of capital, liquidity and business model viability/profitability, should the Bank come under severe stress.	
First Line	**Second Line**
The Deputy CEO and AL Finance Director has the SMF accountability for capital and liquidity.	The Chief Risk Officer has on-going SMF accountability for maintaining the ILAAP and ICAAP documents.

Prudential Risk: Liquidity Adequacy Risk

Risk appetite	
Definition	Liquidity adequacy risk is the risk that the Bank will not be able to pay its liabilities as they fall due. At AL, this risk is most likely to be associated with its depositors and/or a potential run on the bank. The PRA's approach to liquidity supervision is based on the principle that a firm must have adequate levels of liquidity resources and a prudent funding profile, and that it comprehensively manages and controls liquidity and funding risks.
Qualitative statement of AL risk appetite	<u>Survival Horizon</u> • Adequate liquidity resources held to withstand all reasonable idiosyncratic and market risks for up to 90 days. <u>Funding Risk Appetite</u> • Stable funding profile with diversification across clients, products, channels and timeframes. <u>Funding Stability</u> • AL funded by client retail deposits and the BoE Term Funding Scheme (TFS) with no reliance on intra-group deposits from ABG or the wholesale markets. Where appropriate and economic, use may be made of wholesale bank funding or other schemes offered by the Bank of England. • Time and Notice deposits maturity terms enforced in both normal and stressed conditions. • Concentration risk on large depositors mitigated through limits on quantum of lending to clients and quantum held as liquidity resources. • Proportion of call deposits used to fund client lending monitored and subject to limits. • Client lending supported by quality collateral on conservative loan to values. All lending agreements to contain a right to cancel clause for undrawn approved loans. <u>Detect and Respond</u> • Robust reporting and forecasting processes maintained. • Suitable governance arrangements maintained and regularly tested on how AL respond to a stress situation both in survival and rebuild phases. <u>Recovery</u> • Surplus liquidity resources to be of a high quality with the majority of surplus funds kept at the BoE reserve account. The remainder to be subject to conservative Board approved counterparty limits. • Bank of England facilities maintained and regularly tested to enable the raising of cash and liquidity, particularly in periods of stress, through pledging qualifying assets. • Liquidity recovery options documented.

<table>
<tr><th colspan="2">How we manage the risk</th></tr>
<tr><td>Oversight Committee</td><td>ALCO</td></tr>
<tr><td colspan="2">
• The risk appetite statement provides guidance for accepted levels of risk that arises as part of day to day business activities
• The ILAAP documents the approach to managing liquidity adequacy risk. The AL Board approves the ILAAP at least annually, or more frequently, if changes in the business, strategy, nature or scale of AL’s activities or operational environment suggest that the current level of capital resources are no longer adequate.
• Daily monitoring in place.
• ALCO, Risk Committee and AL Board oversight liquidity.
• The Board approved AL Recovery Plan and the Incident Management Plan detail the governance arrangements and options available to AL to recover financial strength, in terms of capital, liquidity and business model viability/profitability, should the Bank come under severe stress.
</td></tr>
<tr><th>First Line</th><th>Second Line</th></tr>
<tr><td>The Deputy CEO and AL Finance Director has the SMF accountability for capital and liquidity.</td><td>The Chief Risk Officer has on-going SMF accountability for maintaining the ILAAP and ICAAP documents.</td></tr>
</table>

Credit Risk: Client Lending

Risk appetite	
Definition	Credit Risk is the risk that a counterparty (borrower) will default on their obligations.
Qualitative statement of AL risk appetite	• AL has a low tolerance for Credit Risk. • AL has a low tolerance to lend where there is a potential reputational risk. • AL have a low risk appetite for Loss Given Default (LGD), and a low (but relatively higher) appetite for Probability of Default (PD). • AL has limited appetite for lending transactions that are within policy/appetite but are at the upper end across a number of aspects, unless suitable mitigants are in place. • AL has appetite for up to 90% of its credit risk exposure to be secured against UK residential property. Although would normally expect the risk profile to be significantly lower than this level and be managed through approved concentration trigger points. • AL has limited appetite for unsecured lending other than where repayment is anticipated from an assured/highly probably cash inflow (rather than from speculative future profitability). • AL has appetite to lend to overseas borrowers where underlying documentation and security is subject to English law. New Business • All new and renewal lending risk assessed on a case-by-case basis, taking into account the overall clients' net worth, collateral offered and loan affordability / serviceability and ultimate repayment in both normal and stressed conditions. • AL has appetite for interest only loans provided there is a clear source of repayment at the end of term including through refinance or sale. • Expected credit losses will differ by business unit according to the type of lending, client base and defined credit risk appetite. Expected losses at a consolidated, business unit and sector level will be monitored, and subject to limits. • Pricing determined with reference to the expected credit losses, as well as the type of lending, funding costs and expected client profitability across a range of products in the short and longer term. • Facility duration differ by business unit according to the client base. Normally facilities granted out to a maximum of 5 years, subject to an annual review. Facilities on Regulatory Mortgage Contracts granted up to 10/15 years. Exception to Policy AL has appetite for "exception to policy" lending only where suitable mitigants are in place. Security

	• Client lending supported by quality collateral on conservative loan to values. • The majority of the collateral comprised of first ranking charges over cash, property or other high-quality assets. • Pledged property to be located in the UK, with the charge registered with the land registry. AL will take overseas property as collateral as "makeweight" security. • Large exposures, net of regulatory eligible collateral monitored and subject to limits with no single connection client or intra-group to exceed 25% of the Bank's regulatory capital. Detect and Respond • Diversity of lending (by Business unit / Sector / Asset / Product) monitored, and subject to limits in line with the approved Concentration Risk trigger points. • Lending agreements subject to an annual credit review at a minimum in all business units except RAF. (The review purpose is to identify any increase in the underlying credit risk, and ensure that AL act as responsible lenders.) • Loans in default identified through automated arrears and expired limits monitoring, and relationship management activity including annual credit reviews. Lending recovery • AL will always seek to protect the shareholders in accordance with the terms of lending arrangements. • All recovery actions in compliance with regulatory and legal requirements. Including the requirements to treat client fairly and consider the needs of vulnerable customers. • In certain circumstances, AL may use forbearance measures to assist borrowers who are experiencing significant financial stress. AL seeks to ensure a fair outcome for both client and AL. • Loans will be written off (either partially or in full) where there is no realistic prospect of recovery in accordance with appropriate accounting standards and having exhausted all appropriate recovery measures.
How we manage the risk	
Oversight Committee	Credit Committee
• The risk appetite statement provides guidance on the acceptable level of risk arising from day-to-day business activities. • The Credit department and Subsidiaries have lending mandates that enable credit underwriting within pre-defined limits and within the Bank's appetite. • Any other lending, contingent liabilities or any other Credit Risk undertaken by the Bank requires Credit Committee approval, with significant exposures additionally requiring extraordinary Credit Committee members' approval. • The Credit Policy, Credit Risk Management Policy, and Credit Committee Terms of Reference document	

the management of credit risk.

- Problem Debt Exposures documents the management of problem debt.
- The Credit Committee, Risk Committee and AL Board oversight Credit Risk, including the regular monitoring of the credit portfolio.

First Line	**Second Line**
The Deputy CEO has the SMF accountability for client lending.	The Chief Credit Officer has oversight responsibility.

Conduct Risk

Risk appetite	
Definition	Conduct Risk is the risk that detriment is caused to our clients or the market, because of inappropriate behaviour or judgement in conducting our business activities.
Qualitative statement of AL risk appetite	• AL has a low tolerance for Conduct Risk. Clients are treated fairly in compliance with the TCF principles, and that conflicts of interest are managed effectively. • We aim to be transparent when communicating to clients especially when communicating costs and charges and promoting our products/services. *Suitability (Investment & Lending)* • AL have restricted the scope of advice to clearly defined parameters. • AL have restricted the giving of advice to a clearly defined population. The Training & Competence team assess advice givers competence against the required standard on an on-going basis. • On a risk-based approach, all advice is monitored to ensure appropriate standards maintained. *CASS* • AL has a low risk appetite for non-compliance with the CASS Rules and Legal requirements. In the event of the Bank's insolvency, these protections ensure the safekeeping of client money and assets placed with AL. Detect and Respond • AL adopts a risk-based approach to systems and controls, and accepts that outcomes may not always be what we desire. • Suitable protocols in place to contain and limit impact through effective early response. Escalation processes defined, and validated.

How we manage the risk	
Oversight Committee	Conduct Risk Committee

- The risk appetite statement provides guidance on the acceptable level of risk arising from day-to-day business activities.
- The Conduct Risk Manual and supporting policies provide further guidance on mitigating Conduct risk.

In addition, the Compliance department provide clear guidance to the first line.

- All staff receive training that is proportionate to their role.
- To mitigate risk further, periodic spot checks (FLOD and SLOD) and internal audits ensure the embedding of guidelines.
- AL has professional indemnity insurance in place to cover claims that may arise.
- The Product Governance Committee oversee products and services to ensure that they remain suitable for the needs of our client base. This includes new products and services, and the periodic review of existing products and services.
- Conduct Risk Committee, Risk Committee and AL Board oversee conduct risk.
- Whilst reported on at Conduct Risk Committee, the CASS Committee oversees CASS and reports into the Audit Committee (covers annual CASS audit). The COO (responsibility for CASS) and Head of Compliance sit on that Committee.

First Line	**Second Line**
The Deputy CEO and COO have the SMF accountability for conduct risk.	The Head of Compliance and MLRO has oversight responsibility.
Further oversight comes from: • Line Management • Training & Competence Team	Further oversight comes from: • Compliance Monitoring Programme • Compliance advisory activities

Operational Risk: Cyber Risk

Risk appetite	
Definition	Cyber Risk is the risk of financial loss, disruption/damage to the reputation of the Bank from a failure of and attacks on its information technology systems, data and infrastructure. Cyber risk can be considered as: • The risk of unauthorised access to AL data or systems (data & network security risk); and • The risk of inadequate IT systems (IT and operational resilience).
Qualitative statement of AL risk appetite	AL has a low tolerance for Cyber risk, including the risk of unauthorised access to its data or systems, and the risk arising from inadequate IT systems. **Identify** • The cyber risk framework seeks to maintain the risk profile at the agreed target level, with a focus on continual enhancement. **Protect** • AL has a low appetite for unauthorised access via internet, and remote and mobile access pathways. Controls to be validated annually by external penetration tests. • All staff to receive regular cyber training to raise awareness and reinforce

	responsibilities. • A "least permissions" principle adopted to ensure only appropriate systems and IT permissions in place. • AL has a low appetite for harmful software or files (malware) being placed into the IT infrastructure. Effective controls are in place and tested at least annually. • Systems vulnerabilities to be identified and eliminated on a timely basis. Patches to be applied in a timely manner in accordance with policy. • Data to be secure, with "encryption at rest" in place where feasible. • Systems to be securely configured, of sufficient quality, available and supported by capable vendors. • IT change management operate with robust governance arrangements. Systems changes implemented in line with established testing protocols. *When Protection Fails* **Detect** • Monitoring in place to detect events indicating compromise. • Threat intelligence deployed to identify the capabilities of current and emerging real-world threats against our ability to protect against them. **Respond** • Suitable Incidence Management arrangements maintained and validated through regular testing. • Stakeholder communications plans across a range of plausible scenarios to pre-drafted and validated through testing. **Recover** • Suitable Business Continuity and Disaster Recovery arrangements maintained and validated through regular testing.

How we manage the risk	
Oversight Committee	Risk Committee, Information Security Group, Operational Risk Committee

- The risk appetite statement provides guidance for accepted levels of risk that arises as part of day-to-day business activities.
- IT policy framework provides further guidance on mitigating Cyber risk.
- Risk Committee and AL Board have oversight of cyber risk. The Information Security Group oversees Data and Network Security whilst the Operations and Operational Risk Committee oversees IT resilience.
- External support for the Operational Risk team to provide oversight through independent deep-dive reviews throughout the year.
- The Risk Committee and Board approve the Cyber strategy on an annual basis. This strategy draws on the external assessment of the current risk profile, describes the "plus 12 months" target risk profile and

articulates the steps AL is taking to improve resilience.

- The Board approved Incident Management Plan details the governance arrangements to respond to an incidence.

First Line	**Second Line**
The COO has the SMF accountability for cyber risk.	The Head of Operational Risk has oversight responsibility, supported by external specialists.

Operational Resilience

Risk appetite	
Definition	• Operational Resilience is the ability of firms and the financial system as a whole to absorb and adapt to shocks, rather than contribute to them • Operational Resilience risk is predominantly considered and managed within the 'Business disruption and system failure' risk as defined in the banks operational risk hierarchy.
Qualitative statement of AL risk appetite	• AL have a low tolerance for client detriment and bank disruption resulting from AL failing to meet defined client service levels agreements for key business services. • AL adopts a resilient operating model with standards in place for internal processes and external suppliers. *When controls fail* • AL adopts a risk-based approach to systems and controls and accepts that desired outcomes are not always possible. • AL have approved Service Recovery Outcomes for each key business service. These are supported by effective incident management, disaster recovery and business continuity plans designed to respond to incidents and recover services (Plan A). • AL have approved impact tolerances before further escalation actions are taken (Plan B) following the failure to restore services using Plan A. Actions will include the Crisis and Management Committee reporting to the Board.

How we manage the risk	
Oversight Committee	Operational Risk Committee

- The risk appetite statement provides guidance for accepted levels of risk that arise as part of day-to-day business activities.
- Operational Risk Committee and Risk Committee oversee operational resilience.
- The AL's operational resilience framework defines the:
  - Key business services
  - The resilient design of the operating model including the supplier management framework, IT policies and operational continuity plans

- o The incident response plan, the backup and recovery plans and the testing and monitoring arrangements
- o The governance arrangements including MI.

First Line	Second Line
• The COO has the SMF accountability for operational resilience	• The Head of Operational Risk has oversight responsibility.

Operational Risk

Risk appetite	
Definition	• Operational risk is the risk that the Company is exposed to financial and non-financial losses from conducting its business. It is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. • Operational risk can be considered within the following Basel risk categories: o Internal fraud; o External fraud; o Employment practices and workplace safety; o Execution, delivery and process management, o Damage to physical assets; and o Business disruption and system failure.
Qualitative statement of AL risk appetite	• AL has a low tolerance for Operational risk losses caused by operational and control weaknesses or errors. • AL have a low tolerance for client detriment and bank disruption resulting from AL failing to meet defined client service levels agreements for key business services. • AL have contingent operational resiliency threshold for operational losses arising from systemic failure within the organisation. *When controls fail* Detect and Respond • AL adopts a risk-based approach to systems and controls and accepts that desired outcomes are not always possible.

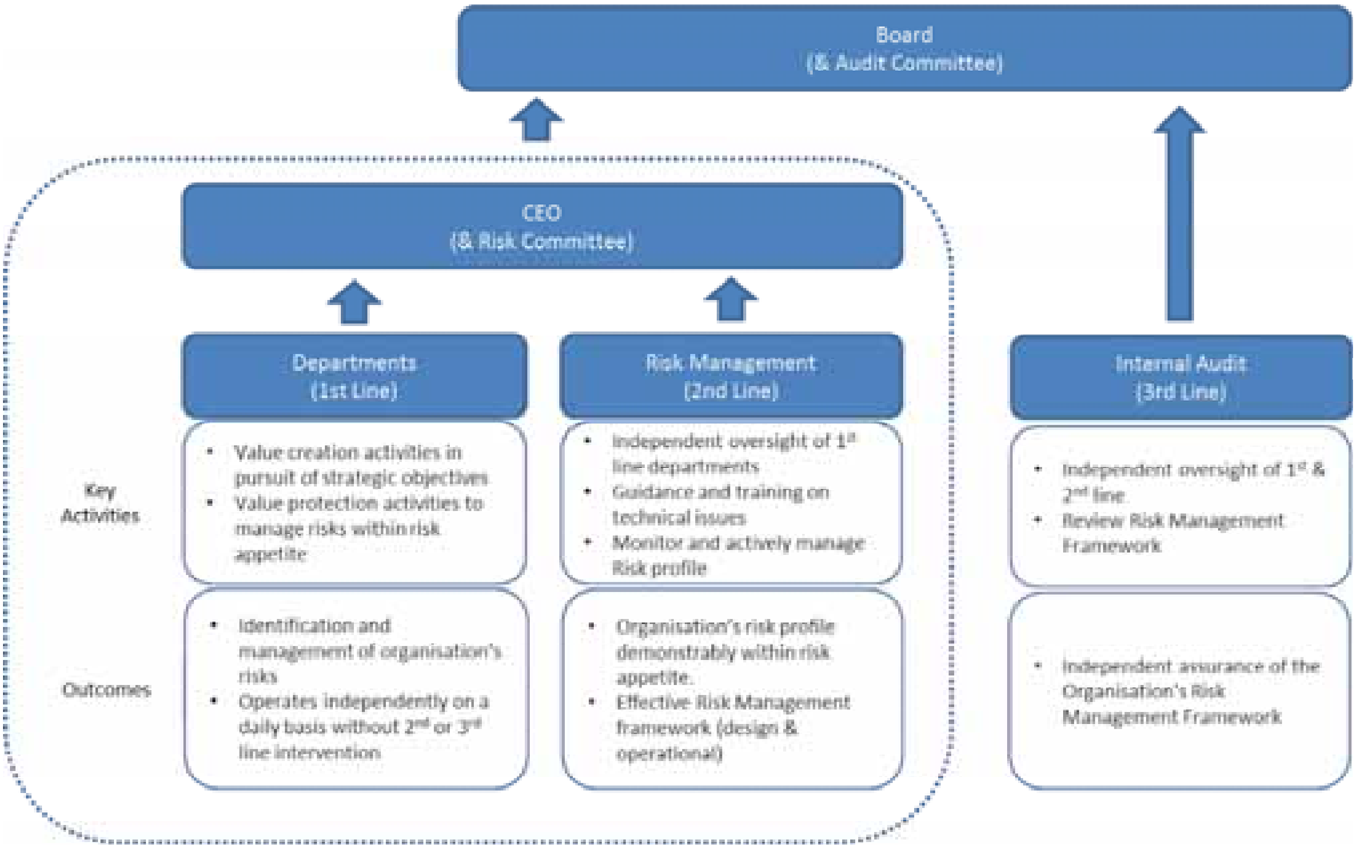
How we manage the risk	
Oversight Committee	Operational Risk Committee

- The risk appetite statement provides guidance for accepted levels of risk that arise as part of day-to-day business activities.
- Operational and Operational Risk Committee, and the Risk Committee oversee operational risks.
- Each department is responsible for managing their operational risks and are required to undertake an annual Risk & Control Self-Assessment.
- AL has insurance policies in place to minimise losses arising from any claims arising from, for example,

external fraud. • Losses greater than £15k on individual events are escalated to the CEO.	
First Line	**Second Line**
• The Deputy CEO and COO have the SMF accountability for operational risk	• The Head of Operational Risk has oversight responsibility.

AL Three Lines of Defence Model

AL operates a 3 Lines of Defence model, in line with current regulatory expectations.



The first line is responsible for identifying and managing the organisation's risks. It operates independently on a daily basis without second line or third line intervention.

First line departments operate risk monitoring and quality assurance mechanisms to measure and manage performance. In some cases, these can be independent teams described as "line 1a", e.g. Controls Team.

The Risk Management function (second line) is responsible for providing independent oversight and challenge of first line risk-taking, as well as guidance and training on technical issues.

Internal audit (third line) is responsible for providing independent assurance over the organisation's governance, risk and internal control arrangements.

Key Regulatory Metrics

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2020

Key Metrics		Dec* 2020	Dec* 2019	Dec* 2018
	Available capital (£'000)			
1	Common Equity Tier 1 ("CET 1")	180,586	177,644	164,291
1a	Fully loaded ECL accounting model CET 1	178,630	176,535	162,305
2	Tier 1	180,586	177,644	164,291
2a	Fully loaded accounting model Tier 1	178,630	176,535	162,305
3	Total capital	218,242	214,481	177,574
3a	Fully loaded ECL accounting model total capital	216,286	213,372	175,588
	Risk weighted assets (£'000)			
4	Total risk weighted assets ("RWA")	1,169,533	1,237,889	1,036,307
	Risk-based capital ratios as a percentage of RWA (%)			
5	CET 1 ratio	15.4%	14.4%	15.9%
5a	Fully loaded ECL accounting model CET 1 ratio	15.3%	14.3%	15.7%
6	Tier 1 ratio	15.4%	14.4%	15.9%
6a	Fully loaded ECL accounting model Tier 1 ratio	15.3%	14.3%	15.7%
7	Total capital ratio	18.7%	17.3%	17.1%
7a	Fully loaded ECL accounting model total capital ratio	18.5%	17.2%	16.9%
	Additional CET1 buffer requirements as a percentage of RWA (%)			
8	Capital conservation buffer requirement (2.5% from 2019)	2.5%	2.5%	1.9%
9	Countercyclical buffer requirement	0.01%	0.88%	1.0%
10	Bank D-SIB additional requirements	0.0%	0.0%	0.0%
11	Total of bank CET1 specific buffer requirements (row 8 + row 9 + row 10)	2.51%	3.4%	2.9%
	Basel III Leverage Ratio			
12	Total Basel III leverage ratio measure	2,882,477	2,598,739	2,127,352
13	Basel III leverage ratio (%) (row 2/row 12)	6.3%	6.8%	7.7%
13a	Fully loaded ECL accounting model Basel III leverage ratio (row 2A/row 12)	6.2%	6.8%	7.6%
	Liquidity Coverage Ratio			
14	Total HQLA	743,013	552,278	514,896
15	Total net cash outflow	313,857	190,220	182,895
16	LCR ratio (%)	236.7%	290.3%	281.5%
	Net Stable Funding Ratio			
17	Total available stable funding	1,978,030	1,921,266	1,730,500
18	Total required stable funding	1,518,660	1,511,253	1,131,445
19	NSFR ratio (%)	130.2%	127.1%	152.9%

* - Includes year end verified reserves.

The Financial Policy Committee ("FPC") announced an increase in the countercyclical capital buffer rate for all UK banks to 0.5%, effective June 2018 with a further increase to 1.0% effective November 2018.

As part of the Bank of England's measures to respond to the economic shock from COVID-19, the UK countercyclical capital buffer rate was reduced to 0% with binding effect from 11 March 2020. The FPC expects the rate to remain at 0% until at least Q4 2021. Due to the usual 12-month implementation lag, any subsequent increase is not expected to take effect until Q4 2022 at the earliest.

The Capital Conservation Buffer was phased in until 2019 and is now fully phased in at 2.5% of Total Risk Exposure.

The Group's Total Capital Requirement ("TCR"), as issued by the PRA, is the sum of the minimum capital requirements under the CRR (Pillar 1) and the Pillar 2A requirement. The current TCR of the Group is 8.71%.

Capital Resources

The table below summarises the composition of regulatory capital for the Group as at 31 December 2020.

Capital Resources	Notes	2020 £000	2019 £000
Common equity Tier 1 Capital			
Share capital		154	154
Capital redemption reserve		19	19
Treasury shares		(1,299)	(1,214)
Retained earnings		207,839	209,171
IFRS 9 - Transitional add back		1,956	1,109
Fair value reserve		(12,690)	205
Deductions from Common equity Tier 1 Capital			
Goodwill		(5,202)	(5,202)
Other intangibles		(8,745)	(14,880)
Deduction for deferred tax asset that do not arise from temporary differences		(1,425)	(1,502)
Deduction for non-significant investment	1	-	(10,183)
Prudent valuation deduction		(21)	(33)
Common equity Tier 1 Capital resources		**180,586**	**177,644**
Tier 2 capital			
Subordinated loans	2	37,656	36,837
Total Tier 2 capital resources		**37,656**	**36,837**
Own Funds (sum of Tier 1 and Tier 2)		**218,242**	**214,481**

Notes

1. At 31 December 2020 the Group's investment in STB is a non-significant investment in accordance with the CRR (2019: non-significant investment)
2. The subordinated debt was raised in order to increase the capital base of the Group:
   a) **Euro subordinated loan notes:** The subordinated loan notes were issued on 7 November 2005 and are denominated in Euros. The principal amount outstanding at 31 December 2020 was €15,000,000 (2019: €15,000,000). The notes carry interest at 3% over the interbank rate for three month deposits in euros and are repayable at par in August 2035 unless redeemed or repurchased earlier by the Company.
   b) **Subordinated loan notes:** The subordinated loan notes were issued on 3 June 2019 and are denominated in Pound Sterling. The principal amount outstanding at 31 December 2020 was £25,000,000 (2019: £25,000,000). The notes carry interest at 7.75% over the three month LIBOR rate and are repayable at par in June 2029 unless redeemed or repurchased earlier by the Company.

Capital Resources

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The table provides a reconciliation of total equity as reported within the Group's audited financial statements for 31 December 2020 and the Group's regulatory capital.

£'000s	
Total equity per consolidated balance sheet	**194,023**
IFRS9 transitional add back	1,956
Deductions from Common equity Tier 1 Capital	
Goodwill	(5,202)
Intangible assets	(8,745)
Deferred tax assets that rely on future profitability and do not arise from temporary differences	(1,425)
Prudent valuation adjustment	(21)
CET1 Capital	**180,586**
Tier 2 subordinated loans	37,656
Total regulatory capital	**218,242**

Capital Adequacy

In order to protect the solvency of the Group, internal capital is held to provide a cushion for unexpected losses. In assessing the adequacy of its capital, the Group considers its risk appetite, the material risks to which the Group is exposed and the appropriate management strategies for each of the Group's material risks, including whether or not capital provides an appropriate mitigant.

In accordance with the parameters set out in the PRA Rulebook, the Internal Capital Adequacy Assessment Process ("ICAAP") is embedded in the risk management framework of the Group. The ICAAP identifies and assesses the risks to the Group, considers how these risks can be mitigated and demonstrates that the Group has sufficient resources, after mitigating actions, to withstand all reasonable scenarios.

Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a "Pillar 1 plus" approach to determine the level of capital the Group needs to hold. This method takes the Pillar 1 capital requirement for credit, market and operational risk as a starting point, and then considers whether each of the calculations delivers a sufficient amount of capital to cover risks to which the Group is, or could be, exposed. Where the Board considers that the Pillar 1 calculations do not adequately cover the risks, an additional Pillar 2A capital requirement is applied. The PRA will set a Pillar 2A capital requirement in light of the calculations included within the ICAAP. The Group's Total Capital Requirement, as issued by the PRA, is the sum of the minimum capital requirements under the CRR (Pillar 1) and the Pillar 2A requirement.

The ICAAP document will be updated and approved by the Board at least annually, or more frequently if changes in the business, strategy, nature or scale of the Group's activities or operational environment suggest that the current level of capital resources are no longer adequate. The ICAAP brings together the management framework (i.e. the policies, procedures, strategies, and systems that the Group has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management.

The Board will monitor performance against the ICAAP through its key committees and operating company boards all of which have main board representation and report to the main board.

The table below gives the linkages between the financial statements and the regulatory exposures:

	a	b	c	d	e	f	g
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
ASSETS							
Cash and balances at central banks	636,799	636,799	636,799	-	-	-	-
Loans and advances to banks	110,267	110,267	110,267	-	-	-	-
Debt securities at amortised cost	344,692	344,692	344,692	-	-	-	-
Assets classified as held for sale	3,285	3,285	3,285	-	-	-	-
Derivative financial instruments	1,843	1,843	-	1,843	-	-	-
Loans and advances to customers	1,587,849	1,587,849	1,587,849	-	-	-	-
Current tax asset	205	205	205	-	-	-	-
Other assets	96,288	96,288	96,288	-	-	-	-
Financial investments	18,495	18,495	18,495	-	-	-	-
Deferred tax asset*	1,009	1,009	-	-	-	-	1,425
Intangible assets	23,646	23,646	9,699	-	-	-	13,947
Property, plant and equipment	4,905	4,905	4,905	-	-	-	-
Right-of-use assets	17,703	17,703	17,703	-	-	-	-
Investment property	6,550	6,550	6,550	-	-	-	-
Total assets	**2,853,536**	**2,853,536**	**2,836,737**	**1,843**	**-**	**-**	**15,372**
LIABILITIES							
Deposits from banks	230,090	230,090	-	-	-	-	-
Derivative financial instruments	649	649	-	649	-	-	-
Deposits from customers	2,365,207	2,365,207	-	-	-	-	-
Current tax liability	-	-	-	-	-	-	-
Other liabilities	7,606	7,606	-	-	-	-	-
Lease liabilities	18,305	18,305	-	-	-	-	-
Debt securities in issue	37,656	37,656	-	-	-	-	-
Total liabilities	**2,659,513**	**2,659,513**	**-**	**649**	**-**	**-**	**-**

* The balance sheet reports the net deferred tax asset but only deferred tax asset that do not arise from temporary differences are deducted from CET1 capital

The following table shows an overview of the Risk Weighted Assets:

	Overview of Risk Weighted Assets	a	b	c
		RWA		Minimum capital requirement
		31/12/20 £000	30/09/20 £000	31/12/20 £000
1	Credit risk (excluding counterparty credit risk)	**1,040,985**	**1,049,042**	**83,279**
2	Of which: the standardised approach	1,040,985	1,049,042	83,279
3	Of which: the foundation IRB (FIRB) approach	-	-	-
4	Of which: the advanced IRB (AIRB) approach	-	-	-
5	Of which: equity IRB under the simple risk-weighted approach or the IMA	-	-	-
6	Counterparty credit risk (CCR)	**1,801**	**1,847**	**144**
7	Of which: mark to market	1,334	1,345	107
8	Of which: original exposure	-	-	-
9	Of which: the standardised approach	-	-	-
10	Of which: internal model method (IMM)	-	-	-
11	Of which: risk exposure amount for contributions to the default fund of a CCP	-	-	-
12	Of which: CVA	467	**502**	**37**
13	Settlement risk	-	-	-
14	Securitisation exposures in the banking book (after the cap)	**-**	**-**	**-**
15	Of which: IRB approach	-	-	-
16	Of which: IRB supervisory formula approach (SFA)	-	-	-
17	Of which: internal assessment approach (IAA)	-	-	-
18	Of which: standardised approach	-	-	-
19	Market risk	**4,186**	**4,695**	**335**
20	Of which: the standardised approach	4,186	4,695	335
21	Of which: IMA	-	-	-
22	Large exposures	-	-	-
23	Operational risk	**122,546**	**122,546**	**9,804**
24	Of which: basic indicator approach	122,546	122,546	9,804
25	Of which: standardised approach	**-**	**-**	**-**
26	Of which: advanced measurement approach	**-**	**-**	**-**
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	14	11	1
28	Floor adjustment	-	-	-
29	**Total**	**1,169,533**	**1,178,142**	**93,563**

Impairment of financial assets: assets carried at amortised cost

The Group recognises loss allowances on an expected credit loss basis for all financial assets measured at amortised cost, including loans and advances, debt securities and loan commitments.

Credit loss allowances are measured as an amount equal to lifetime ECL, except for the following assets, for which they are measured as 12 month ECL:

- Financial assets determined to have a low credit risk at the reporting date. The assets, to which the low credit risk exemption applies, include cash and balances at central banks, loans and advances to banks and debt securities at amortised cost. These assets are all considered investment grade.
- Financial assets which have not experienced a significant increase in credit risk since their initial recognition.

Impairment model

The IFRS 9 impairment model adopts a three stage approach based on the extent of credit deterioration since origination:

- Stage 1: 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk ("SICR") since origination and are not credit impaired. The ECL will be computed based on the probability of default events occurring over the next 12 months. Stage 1 includes the current performing loans (up to date and in arrears of less than 10 days) and those within Heightened Business Monitoring ("HBM"). Accounts requiring HBM are classified as a short-term deterioration in financial circumstances and are tightly monitored with additional proactive client engagement, but not deemed SICR.

- Stage 2: When a financial asset experiences a SICR subsequent to origination, but is not in default, it is considered to be in Stage 2. This requires the computation of ECL based on the probability of all possible default events occurring over the remaining life of the financial asset. Provisions are higher in this stage (except where the value of charge against the financial asset is sufficient to enable recovery in full) because of an increase in credit risk and the impact of a longer time horizon being considered (compared to 12 months in Stage 1).

Evidence that a financial asset has experienced a SICR includes the following considerations:

  - A loan is in arrears between 31 and 90 days;
  - Forbearance action has been undertaken;

- Stage 3: Financial assets that are credit impaired are included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses. At each reporting date, the Group will assess whether financial assets carried at amortised cost are in default. A financial asset will be considered to be in default when an event(s) that has a detrimental impact on estimated future cash flows have occurred.

Evidence that a financial asset is within Stage 3 includes the following data:

  - A loan is in arrears in excess of 90 days;
  - Breach of terms of forbearance;
  - Recovery action is in hand; or

- Bankruptcy proceedings or similar insolvency process of a client, or director of a company.

A borrower will move back into Stage 1 conditional upon both a period of good account conduct and the improvement of the Client's situation to the extent that the credit risk has receded sufficiently and a full repayment of the loan, without recourse to the collateral, is likely.

Presentation of allowance for ECL in the statement of financial position
For financial assets measured at amortised cost, these are presented as the gross carrying amount of the assets minus a deduction for the ECL.

(a) Write-off
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the outstanding amount due.

(b) Renegotiated loans
Loans that are not individually significant, and whose terms have been renegotiated, are no longer considered to be past due and are treated as new loans.

(c) Forbearance
Under certain circumstances, the Group may use forbearance measures to assist borrowers who are experiencing significant financial hardship. Any forbearance support is assessed on a case by case basis in line with best practice and subject to regular monitoring and review. The Group seeks to ensure that any forbearance results in a fair outcome for both the customer and the Group.

(d) Assets classified as financial investments
Equity instruments at fair value through other comprehensive income
Equity investments are not subject to impairment charges recognised in the income statement. Any fair value gains and losses are recognised in OCI which are not subject to reclassification to the income statement on derecognition.

Debt instruments at FVOCI
Changes in fair value are recognised in OCI, the loss allowance will be recognised in OCI and shall not reduce the carrying amount of the financial asset in the statement of financial position. Impairment costs will be recognised in the profit or loss with a corresponding entry to OCI. On derecognition, cumulative gains and losses in OCI are reclassified to the profit or loss.

Credit Risk

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The following tables provide an analysis of loans and advances to customers (as disclosed in the Group's Annual Report):

	2020			
	Stage 1	Stage 2	Stage 3	Total
Group	£000	£000	£000	£000
Gross loans and advances at 1 January 2020	**1,506,024**	**66,372**	**31,447**	**1,603,843**
Originations and repayments	4,941	(4,045)	(8,982)	(8,086)
Write-offs	-	-	(3,280)	(3,280)
Transfer to Stage 1	20,951	(20,951)	-	-
Transfer to Stage 2	(99,683)	99,683	-	-
Transfer to Stage 3	(8,901)	(14,712)	23,613	-
Gross loans and advances at 31 December 2020	**1,423,332**	**126,347**	**42,798**	**1,592,477**
Less allowances for ECLs	(725)	(533)	(3,370)	(4,628)
Net loans and advances at 31 December 2020	**1,422,607**	**125,814**	**39,428**	**1,587,849**

	2019			
	Stage 1	Stage 2	Stage 3	Total
Group	£000	£000	£000	£000
Gross loans and advances at 1 January 2019	**1,161,124**	**32,700**	**37,407**	**1,231,231**
Originations	147,411	(12,845)	(11,134)	123,432
Repayments and write-offs	(49)	-	(2,927)	(2,976)
Acquired portfolio	252,156	-	-	252,156
Transfer to Stage 1	3,659	(3,659)	-	-
Transfer to Stage 2	(50,489)	50,489	-	-
Transfer to Stage 3	(7,788)	(313)	8,101	-
Gross loans and advances at 31 December 2019	**1,506,024**	**66,372**	**31,447**	**1,603,843**
Less allowances for ECLs	(526)	(47)	(4,217)	(4,790)
Net loans and advances at 31 December 2019	**1,505,498**	**66,325**	**27,230**	**1,599,053**

Loans and advances to customers by division (net of ECL):

	2020							
Group	Private Banking £000	Commercial Banking £000	Mortgage Portfolios £000	RAF £000	ABL £000	ASFL £000	All Other Divisions £000	Total £000
Stage 1	519,180	511,790	223,800	74,541	87,331	5,965	-	1,422,607
Stage 2	37,056	35,570	36,794	16,394	-	-	-	125,814
Stage 3	20,066	10,138	8,233	991	-	-	-	39,428
At 31 December 2018	**576,302**	**557,498**	**268,827**	**91,926**	**87,331**	**5,965**	**-**	**1,587,849**

	2019							
Group	Private Banking £000	Commercial Banking £000	Mortgage Portfolios £000	RAF £000	ABL £000	ASFL £000	All Other Divisions £000	Total £000
Stage 1	498,221	505,518	306,044	100,981	75,871	7,352	11,511	1,505,498
Stage 2	43,491	22,079	-	755	-	-	-	66,325
Stage 3	26,055	23	-	1,152	-	-	-	27,230
At 31 December 2018	**567,767**	**527,620**	**306,044**	**102,888**	**75,871**	**7,352**	**11,511**	**1,599,053**

Analyses of past due loans and advances to customers by division:

	2020							
Group	Private Banking £000	Commercial Banking £000	Mortgage Portfolios £000	RAF £000	ABL £000	ASFL £000	All Other Divisions £000	Total £000
Up to 30 days	9,902	652	6,354	1,928	-	-	-	18,836
Stage 1	9,897	5	5,948	1,468	-	-	-	17,318
Stage 2	5	647	406	346	-	-	-	1,404
Stage 3	-	-	-	114	-	-	-	114
30 - 60 days	-	9	4,187	274	-	-	-	4,470
Stage 1	-	9	-	-	-	-	-	9
Stage 2	-	-	4,187	209	-	-	-	4,396
Stage 3	-	-	-	65	-	-	-	65
60 - 90 days	2,091	7,376	1,788	475	-	-	-	11,730
Stage 1	-	-	-	58	-	-	-	58
Stage 2	2,091	7,376	1,788	104	-	-	-	11,359
Stage 3	-	-	-	313	-	-	-	313
Over 90 days	52,193	13,033	7,125	1,096	-	-	-	73,447
Stage 2	26,655	3,216	-	276	-	-	-	30,147
Stage 3	25,538	9,817	7,125	820	-	-	-	43,300
At 31 December	**64,186**	**21,070**	**19,454**	**3,773**	**-**	**-**	**-**	**108,483**

Analyses of past due loans and advances to customers by division:

	2019							
	Private Banking	Commercial Banking	Mortgage Portfolios	RAF	ABL	ASFL	All Other Divisions	Total
Group	£000	£000	£000	£000	£000	£000	£000	£000
Up to 30 days	16,911	15,872	5,196	1,608	-	-	-	39,587
Stage 1	13,525	15,864	5,196	1,395	-	-	-	35,980
Stage 2	3,386	8	-	1	-	-	-	3,395
Stage 3	-	-	-	212	-	-	-	212
30 - 60 days	1,899	35	2,404	526	-	-	-	4,864
Stage 1	-	35	2,404	151	-	-	-	2,590
Stage 2	1,899	-	-	203	-	-	-	2,102
Stage 3	-	-	-	172	-	-	-	172
60 - 90 days	70	-	1,688	342	-	-	-	2,100
Stage 1	-	-	1,688	110	-	-	-	1,798
Stage 2	70	-	-	128	-	-	-	198
Stage 3	-	-	-	104	-	-	-	104
Over 90 days	42,567	19,306	21,516	1,333	-	-	-	84,722
Stage 1	-	-	21,516	69	-	-	-	21,585
Stage 2	19,705	8,959	-	258	-	-	-	28,922
Stage 3	22,862	10,347	-	1,006	-	-	-	34,215
At 31 December	**61,447**	**35,213**	**30,804**	**3,809**	**-**	**-**	**-**	**131,273**

An analysis of movements in the allowance for ECLs (2020):

Group	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
At 1 January 2020	**527**	**47**	**4,216**	**4,790**
Transfer to Stage 1	5	(5)	-	-
Transfer to Stage 2	(17)	17	-	-
Current year charge	262	283	1,625	2,170
Adjustment due to variation in expected future cash flows	(92)	-	701	609
Change in assumptions	181	233	77	491
Financial assets that have been derecognised	-	-	(596)	(596)
Repayments and write-offs	(142)	(41)	(2,653)	(2,836)
At 31 December 2020	**724**	**534**	**3,370**	**4,628**

The ECL requirement increased significantly, primarily in Stage 1 and Stage 2 exposures, in anticipation of credit deterioration, reflecting the severity of the economic impact arising from COVID-19. The impact of the COVID-19 scenarios and weighting adjustments has resulted in a £625k increase in ECL from the pre COVID-19 scenarios, primarily driven by forecasts for a prolonged period of UK unemployment.

Estimated effects from the significant support measures provided by the Group, central banks and governments across the Group's key markets as a result of the COVID-19 pandemic have been factored into the calculation of the Group's loan impairment charge.

An analysis of movements in the allowance for ECLs (2019):

Group	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
At 1 January 2019	**1,606**	**8**	**4,961**	**6,575**
Transfer to Stage 2	(2)	2	-	-
Transfer to Stage 3	(5)	(1)	5	(1)
Current year charge	281	42	903	1,226
Adjustment due to variation in expected future cash flows	-	-	134	134
Change in assumptions	(1,353)	-	223	(1,130)
Financial assets that have been derecognised	-	-	(853)	(853)
Repayments and write-offs	-	(4)	(1,157)	(1,161)
At 31 December 2019	**527**	**47**	**4,216**	**4,790**

Analysis of credit risk exposures

The following table analyses the Group's regulatory risk exposures as at 31 December by the CRR exposure classes:

	2020			2019		
	Original Exposure pre conversion factors	Risk weighted assets after SME supporting factor	Capital Requirement (8%)	Original Exposure pre conversion factors	Risk weighted assets after SME supporting factor	Capital Requirement (8%)
Analysis by credit risk exposure class	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Central governments or central banks	652,616	0	0	467,826	0	0
Multilateral development banks	36,953	0	0	27,438	0	0
Institutions	36,642	15,013	1,201	18,039	4,389	351
Corporates	186,196	95,804	7,664	172,122	134,987	10,799
Retail	172,843	82,481	6,598	132,445	85,334	6,827
Secured by mortgage on immovable property	1,354,485	532,097	42,568	1,322,098	575,221	46,018
Exposures in default	67,412	75,793	6,063	82,317	85,227	6,818
Items associated with particularly high risk	22,180	25,657	2,053	36,107	47,249	3,780
Covered bonds	169,031	16,903	1,352	136,021	13,602	1,088
Claims on institutions and corporates with a short-term credit assessment	203,508	43,452	3,476	170,893	35,014	2,801
Equity	18,357	18,357	1,469	19,916	19,916	1,593
Other items	136,936	136,777	10,942	126,345	126,802	10,144
Total credit risk exposure as at 31 December	**3,057,161**	**1,042,334**	**83,387**	**2,711,567**	**1,127,742**	**90,219**

Note

The credit risk exposures above are disclosed on a regulatory basis and therefore do not reconcile to financial asset classifications as reported in the Group's Statutory Annual Report.

The following table analyses the Group's regulatory risk exposures as at 31 December 2020 by the CRR exposure classes and geographic distribution. Where the original exposure for a country is greater than 1% of the total original exposure, the country has been separately disclosed.

Credit Risk

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	Original Exposure pre conversion factors							
	United Kingdom	Canada	Guernsey	Hong Kong	Isle of Man	United Arab Emirates	All other Countries	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Central governments or central banks	652,616	0	0	0	0	0	0	652,616
Multilateral development banks	0	0	0	0	0	0	36,953	36,953
Institutions	23,841	0	0	0	0	0	12,801	36,642
Corporates	178,086	0	0	0	0	4,023	4,087	186,196
Retail	162,548	0	0	0	175	8,774	1,346	172,843
Secured by mortgage on immovable property	1,044,273	3,101	76,151	32,245	23,257	71,575	103,882	1,354,485
Exposures in default	55,319	0	0	0	8,473	0	3,620	67,412
Items associated with particularly high risk	22,180	0	0	0	0	0	0	22,180
Covered bonds	169,031	0	0	0	0	0	0	169,031
Claims on institutions and corporates with a short-term credit assessment	129,934	43,968	0	0	0	408	29,198	203,508
Equity	16,753	0	0	0	0	0	1,604	18,357
Other items	136,936	0	0	0	0	0	0	136,936
Total	**2,591,517**	**47,070**	**76,151**	**32,245**	**31,904**	**84,780**	**193,492**	**3,057,161**

The following table analyses the Group's regulatory risk exposures as at 31 December 2020 by the CRR exposure classes and counterparty type.

	Original Exposure pre conversion factors						
	Sovereign	Multilateral development banks	Banks	Corporates	Individuals	Other	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Central governments or central banks	652,616	0	0	0	0	0	652,616
Multilateral development banks	0	36,953	0	0	0	0	36,953
Institutions	0	0	36,642	0	0	0	36,642
Corporates	0	0	0	160,890	25,305	0	186,196
Retail	0	0	0	126,536	46,308	0	172,843
Secured by mortgage on immovable property	0	0	0	757,831	596,654	0	1,354,485
Exposures in default	0	0	0	19,664	47,748	0	67,412
Items associated with particularly high risk	0	0	0	21,199	981	0	22,180
Covered bonds	0	0	169,031	0	0	0	169,031
Claims on institutions and corporates with a short-term credit assessment	0	0	203,508	0	0	0	203,508
Equity	0	0	15,921	2,436	0	0	18,357
Other items	0	0	0	0	0	136,936	136,936
Total	**652,616**	**36,953**	**425,103**	**1,088,557**	**716,996**	**136,936**	**3,057,161**

Credit Risk

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2020

Effect of Credit Risk Mitigation by CRR Exposure class: December 2020	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Central governments or central banks	652,616	-	681,576	-	-	0.00%
Multilateral development banks	36,953	-	36,953	-	-	0.00%
Institutions	36,642	-	36,642	-	15,013	40.97%
Corporates	143,626	42,569	116,429	874	95,804	51.45%
Retail	125,460	47,383	100,747	1,733	82,481	47.72%
Secured by mortgage on immovable property	1,237,458	117,028	1,221,845	29,853	532,097	39.28%
Exposures in default	67,412	-	65,920	-	75,793	112.43%
Items associated with particularly high risk	15,698	6,482	15,439	1,666	25,657	115.68%
Covered bonds	169,031	-	169,031	-	16,903	10.00%
Claims on institutions and corporates with a short-term credit assessment	203,508	-	203,508	-	43,452	21.35%
Equity	18,357	-	18,357	-	18,357	100.00%
Other items	136,936	-	136,936	-	136,777	99.88%
Total credit risk exposure as at 31 December 2020	2,843,698	213,463	2,803,383	34,126	1,042,334	
		3,057,161		**2,837,509**		

Credit Risk

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2020

Breakdown by CRR exposure class and risk weight - December 2020	0%	10%	20%	35%	50%	75%	100%	150%	250%	Total credit exposures
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Central governments or central banks	681,576	-	-	-	-	-	-	-	-	681,576
Multilateral development banks	36,953	-	-	-	-	-	-	-	-	36,953
Institutions	-	-	11,028	-	25,614	-	-	-	-	36,642
Corporates	-	-	-	-	-	-	117,303	-	-	117,303
Retail	-	-	-	-	-	-	102,480	-	-	102,480
Secured by mortgage on immovable property	-	-	-	1,033,058	-	-	218,640	-	-	1,251,698
Exposures in default	-	-	-	-	-	-	46,173	19,747	-	65,920
Items associated with particularly high risk	-	-	-	-	-	-	-	17,105	-	17,105
Covered bonds	-	169,031	-	-	-	-	-	-	-	169,031
Claims on institutions and corporates with a short-term credit assessment	-	-	194,340	-	9,168	-	-	-	-	203,508
Equity	-	-	-	-	-	-	18,357	-	-	18,357
Other items	168	-	-	-	-	-	136,762	-	6	136,936
	718,697	**169,031**	**205,368**	**1,033,058**	**34,782**	**0**	**639,716**	**36,852**	**6**	**2,837,509**

Analysis of loans and advances to banks

The table below presents an analysis of loans and advances to banks by rating agency designation as at 31 December, based on Moody's long term ratings (as disclosed in the Group's Annual Report):

Analysis of loans and advances to banks	2020 £000	2019 £000
Aaa	-	-
Aa3	341	30,834
A1	100,748	306
A2	10	13,961
A3	3,956	20
Baa1	5,204	393
Baa2	-	736
Unrated	8	8
Total	**110,267**	**46,258**

Analysis of debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December, based on Moody's long term ratings (as disclosed in the Group's Annual Report):

Analysis of debt securities	2020 £000	2019 £000
Aaa	61,715	163,788
Aa1	29,315	11,390
Aa2	14,657	205,812
Aa3	41,986	50,238
A1	197,019	11,732
A2	-	-
Total	**344,692**	**442,960**

To calculate the Pillar 1 credit risk requirement under the standardised approach, the credit ratings are mapped to credit quality steps in accordance with the EBA mapping tables.

Market Risk & Operational Risk

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2020

Market Risk

The Group does not have a trading book and so its Pillar 1 capital requirement for market risk is limited to foreign exchange risk. Other market risks, such as interest rate risk in the banking book, are considered by the Group within the ICAAP.

Foreign Exchange Risk

The Group calculates its Pillar 1 capital requirement for foreign exchange risk in accordance with Article 352 of the CRR. This requires the Group to calculate the net open position in each currency and these are then summed separately to calculate the total of the net short positions and the total of the net long positions. The higher of these two totals is the Group's net foreign exchange position. This is multiplied by 8% to calculate the capital requirement.

The table below shows the Group's Pillar 1 capital requirement for foreign exchange risk at 31 December 2020 and 2019.

Foreign Exchange Risk £'000s	2020	2019
Net foreign exchange position	4,186	4,164
Capital Requirement (8%)	335	333

Operational Risk

The Group has adopted the Basic Indicator Approach for calculating the Pillar 1 capital requirements for operational risk. Under the Basic Indicator Approach, the own funds requirement for operational risk is equal to 15 % of the average over three years of the relevant indicator.

The table below shows the quantification of the Group's Pillar 1 operational risk requirement as at 31 December 2020.

	Relevant Indicator			
£'000s	2017	2018	2019	Average
Banking activities subject to the basic indicator approach	55,709	67,902	72,463	65,358
Operational risk capital requirement				**9,804**

Countercyclical Capital Buffer

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2020

The Group calculates its institution specific countercyclical capital buffer rate in accordance with the requirements within the PRA Rulebook. The rate is the weighted average of the countercyclical capital buffer rates that apply to exposures in the jurisdictions where the Group's relevant credit exposures are located.

The tables below disclose the information relevant for the calculation of the Group's countercyclical capital buffer and reports the buffer requirement at 31 December 2020.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposures:	Own Funds requirement:	Own Funds Requirement weights (%)	Countercyclical capital buffer rate (%)
£'000s	Exposure value for Standardised approach	Of which: General credit exposures		
Breakdown by County				
Hong Kong	30,845	1,089	1.32%	1.00%
Rest of the World	2,051,493	81,097	98.68%	0%
Total	**2,082,338**	**82,186**	**100.00%**	

Amount of institution specific countercyclical capital buffer

	£'000s
Total risk exposure amount	1,169,533
Institution specific countercyclical capital buffer rate	0.01%
Institution specific countercyclical buffer requirement	155

Financial assets can be pledged as collateral as part of sales and repurchases, securities borrowing and securitisation transactions under terms that are usual and customary for such activities. In addition, as part of these transactions, the Group may receive collateral that it is permitted to sell or repledge in the absence of default.

The Group primarily encumbers assets through positioning loans or treasury assets as collateral to support access to the Bank of England's Term Funding Scheme ("TFS"). The TFS allows participants to borrow central bank reserves in exchange for eligible collateral. Deposits from banks include £225m (2019: £225m) obtained through TFS.

	2020				2019			
	Encumbered assets		Unencumbered assets		Encumbered assets		Unencumbered assets	
Encumbered and unencumbered assets	Carrying Amount £'000s	Fair Value £'000s	Carrying Amount £'000s	Fair Value £'000s	Carrying Amount £'000s	Fair Value £'000s	Carrying Amount £'000s	Fair Value £'000s
Loans on demand	829		745,739		-		368,874	
Equity instruments	-	-	18,357	18,357	-	-	30,919	30,919
Debt securities	108,009	108,859	236,821	237,940	69,601	69,546	373,359	373,359
Loans and advances other than loans on demand	179,417		1,408,930		189,405		1,412,940	
Other assets	-		155,434		-		150,281	
Assets of the reporting institution	**288,255**		**2,565,281**		**259,007**		**2,336,373**	
Total on-balance sheet (encumbered and unencumbered)			**2,853,536**				**2,595,379**	

Encumbered loans and advances at 31 December 2020 included loans within the Tay loan portfolio. Following the Bank's decision to sell this portfolio, with the sale completing on 26 February 2021, the encumbered loans were replaced with eligible debt securities. This resulted in a c. £38m reduction in the Bank's encumbered loans and advances.

Leverage Ratio

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2020

The leverage ratio is a regulatory measure complementing capital. The leverage ratio is defined as Tier 1 capital divided by the total leverage ratio exposure measure, expressed as a percentage. The exposure measure includes both on-balance sheet exposures and off-balance sheet items. On balance sheet exposures are generally included at their accounting value, although exposures arising from derivatives transactions includes an add-on for the related counterparty credit risk.

CRR2 introduced a binding leverage ratio requirement, in the EU, of 3% from June 2021. However, the CRR2 changes were not implemented in the EU before the end of the Brexit transition period and so the rules must still be implemented in the UK. The Financial Policy Committee and Prudential Regulation Committee are conducting a review of the UK leverage ratio framework which will be completed in summer 2021. It is expected that the PRA will consult on any changes to the UK leverage ratio following completion of this review.

The leverage ratio together with the other regulatory metrics is actively monitored and assessed by the Group.

The Group calculates its leverage ratio in accordance with article 429 of the CRR and reports this to the PRA on a quarterly basis. AL's ALCO monitor the leverage ratio on a monthly basis and has set a risk appetite of >=3.75%. The monitoring includes a month on month trend analysis of the ratio, calculated in accordance with the CRR, and a forecast ratio and these enable the Group to identify whether there is a heightened risk of excessive leverage.

The following three tables follow the formats that are prescribed by the European Banking Authority ("EBA"). Rows without balances have been omitted.

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures	2020 £000	2019 £000
Total consolidated assets as per published financial statements	2,853,536	2,595,379
Adjustments for derivative financial instruments	885	565
Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	43,449	34,595
Other adjustments	(15,393)	(31,800)
Total leverage exposure	**2,882,477**	**2,598,739**

Leverage Ratio

LRCom: Leverage ratio common disclosure	2020 £000	2019 £000
On-balance sheet exposures (excluding derivatives and SFTs):		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,851,693	2,593,575
(Asset amounts deducted in determining Tier 1 capital)	(15,393)	(31,800)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**2,836,300**	**2,561,775**
Derivative exposures:		
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	1,843	1,804
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	885	565
Total derivative exposures	**2,728**	**2,369**
Other off-balance sheet exposures:		
Off-balance sheet exposures at gross notional amount	213,463	136,660
(Adjustments for conversion to credit equivalent amounts)	(170,014)	(102,065)
Other off-balance sheet exposures	**43,449**	**34,595**
Capital and total exposures:		
Tier 1 capital	180,586	177,644
Total leverage ratio exposures	2,882,477	2,598,739
Leverage Ratio	**6.3%**	**6.8%**

Table LRSpl: Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	2020 £000	2019 £000
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**2,836,300**	**2,561,775**
Banking book exposures, of which:	**2,836,300**	**2,561,775**
Covered bonds	169,031	136,021
Exposures treated as sovereigns	652,616	467,826
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	36,953	27,438
Institutions	34,212	15,860
Secured by mortgages of immovable properties	1,237,420	1,227,038
Retail exposures	124,774	117,489
Corporate	143,596	151,428
Exposures in default	66,361	79,416
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	371,338	339,259

Liquidity

Liquidity Coverage Ratio ("LCR")

		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	Total HQLA		743,013
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	**724,089**	**100,270**
3	Stable deposits	125,395	6,270
4	Less stable deposits	598,694	94,000
5	**Unsecured wholesale funding, of which:**	**870,599**	**353,048**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	870,599	353,048
8	Unsecured debt	-	-
9	**Secured wholesale funding**		-
10	**Additional requirements, of which:**	**213,497**	**16,044**
11	Outflows related to derivative exposures and other collateral requirements	34	34
12	Outflows related to loss of funding of debt products	-	-
13	Credit and liquidity facilities	213,463	16,010
14	**Other contractual funding obligations**	-	-
15	**Other contingent funding obligations**	-	-
16	**TOTAL CASH OUTFLOWS**		**469,362**
Cash inflows			
17	**Secured lending (eg reverse repo)**	-	-
18	**Inflows from fully performing exposures**	207,280	155,505
19	**Other cash inflows**	-	-
20	**TOTAL CASH INFLOWS**	**207,280**	**155,505**
			Total adjusted value
21	**Total HQLA**		**743,013**
22	**Total net cash outflows**		**313,857**
23	**Liquidity coverage ratio (%)**		**236.7%**

High quality liquid assets consist out of the Group's Bank of England reserve account, central government and multi-lateral development bank assets and covered bonds.

Remuneration Disclosures

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2020

The Remuneration Code (the “Code”) requires a firm to maintain remuneration policies, procedures and practices that promote effective risk management. The Code requires the Group to identify Material Risk Takers (“MRTs”), also known as Code staff. MRTs have activities which have a material impact on the firm’s risk profile. The Group identified 38 MRTs in respect of the 2020 performance year.

MRTs

The following have been identified as MRTs across the Group:

1. All Executive and Non-Executive Directors of Arbuthnot Banking Group PLC (“ABG”) and Arbuthnot Latham & Co., Limited (“AL”).
2. All other employees of AL who hold a Senior Management Function (“SMF”)
3. All other MRTs not caught by 1 or 2 as per criteria outlined under MRT regulation (No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU.

During the performance year 2020, there were no other staff identified who are both highly remunerated and could have an impact on the Group’s risk profile.

Aggregate Remuneration Expenditure (MRTs)

Group Directors	AL
£3,506,342	£5,182,136

Breakdown of remuneration between Fixed and Variable amounts

December 2020	Total	Directors	Others
Number of MRTs	38	14	24
Fixed	£8,688,478	£4,843,188	£3,845,290
Variable	£nil	£nil	£nil

Decision making process used to determining the remuneration policy

The ABG Remuneration Committee has responsibility for oversight of the ABG Remuneration policy and the implementation of it, while the AL Remuneration Committee is responsible for the AL Remuneration policy and the implementation thereof.

Whilst it is the established practice for all pay rises and bonuses to be reviewed at Group level, any bonuses in excess of 33% of total remuneration to MRTs and/or any remuneration package in excess of £500,000 need to be specifically approved in advance by either the ABG Remuneration Committee or the AL Remuneration Committee.

Where the Committee believe it is appropriate, significant bonuses will be subject to a deferred payment structure.

Composition of the Remuneration Committee

Membership of both Remuneration Committees is limited to non-executive directors together with Sir Henry Angest who is Chairman of both. The ABG Remuneration Committee met once during the year and the AL Remuneration Committee met three times. Both Committees are required to meet formally at least once per year and otherwise as required.

The present members of the ABG Remuneration Committee are Sir Henry Angest, Sir Christopher Meyer and Sir Alan Yarrow. The present members of the AL Remuneration Committee are Sir Henry Angest, Angela Knight, Sir Michael Peat and Paul Marrow.

The Committees have responsibility for producing recommendations on their respective Remuneration Policies and for reviewing the remuneration of specific MRTs.

Link between pay and performance

The Group believes in the importance of attracting, retaining and motivating Staff of the appropriate calibre without paying more than is necessary for this purpose.

The general principle for the Group is that staff will be paid a salary, plus benefits and they will be eligible for an annual discretionary bonus.

Both salary increases and the payment of a discretionary bonus are subject to good performance, company profitability and compliance with risk policies and risk appetite limits.

Own Funds Disclosure Template

Own funds disclosure template £'000s			**Regulation (EU) No 575/2013 Article Reference**
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	154	26 (1), 27, 28, 29
	of which: Ordinary Shares	154	EBA list 26 (3)
	of which: Instrument type 2	0	EBA list 26 (3)
	of which: Instrument type 3	0	EBA list 26 (3)
2	Retained earnings	207,839	26 (1) c)
3	Accumulated other comprehensive income (and other reserves)	(10,715)	26 (1)
3a	Funds for general banking risk	0	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET 1	0	486 (2)
5	Minority interests (amount allowed in consolidated CET 1)	0	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	26 (2)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	**197,278**	Sum of rows 1 to 5a
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(21)	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(13,947)	36 (1) (b), 37
9	Empty Set in the EU	0	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) where the conditions in Article 38 (3) are met) (negative amount)	(1,425)	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	0	33(1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	0	36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amounts)	0	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	33(1) (b)
15	Defined benefit pension fund assets (negative amount)	0	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(1,299)	36 (1) (f), 42

17	Direct , indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	36 (1) (g), 44
18	Direct , indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct , indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty Set in the EU	0	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	36 (1) (k)
20b	of which: qualifying holding outside the financial sector (negative amount)	0	36 (1) (k) (i), 89 - 91
20c	of which: securitisation positions (negative amount)	0	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	0	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met (negative amount)	0	36 (1) c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	0	48 (1)
23	of which: direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities	0	36 (1) (i), 48 (1) (b)
24	empty set in the EU	0	
25	of which: deferred tax assets that arise from temporary differences	0	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	0	36 (1) (a)
25b	Foreseeable tax charge relating to CET1 items (negative amount)	0	36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	0	36 (1) (j)

28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(16,692)**	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	**Common Equity Tier 1 (CET1) capital**	**180,586**	Row 6 minus row 28
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	0	51, 52
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standard	0	
33	Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from AT1	0	486 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	0	85, 86
35	of which: instruments issued by subsidiaries subject to phase out	0	486 (3)
36	Additional Tier 1 (AT1) capital before regulatory adjustments	0	Sum of rows 30, 33 and 34
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	0	52 (1) (b), 56 (a), 57
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution	0	56 (b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0	56 (d), 59, 79
41	Empty set in the EU	0	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	0	Sum of rows 37 to 42
44	**Additional Tier 1 (AT1) capital**	0	Row 36 minus row 43

45	**Tier 1 capital (T1 = CET1 + AT1)**	**180,586**	Sum of row 29 and row 44
Tier 2 (T2) capital: Instruments and provisions			
46	Capital instruments and the related share premium accounts	37,656	62, 63
47	Amount of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase out from T2	0	486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	0	87, 88
49	of which: instruments issued by subsidiaries subject to phase out	0	486 (4)
50	Credit risk adjustments	0	62 (c) and (d)
51	Tier 2 (T2) capital before regulatory adjustments	37,656	
Tier 2 capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amounts)	0	63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	66 (b), 68
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	66 (c), 69, 70, 79
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0	66 (d), 69, 79
56	Empty set in the EU	0	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**0**	**Sum of rows 52 to 56**
58	**Tier 2 (T2) capital before regulatory adjustments**	37,656	**Row 51 minus row 57**
59	**Total capital (TC = T1 + T2)**	**218,242**	**Sum of row 45 and row 58**
60	**Total risk weighted assets**	**1,169,533**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.4%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	15.4%	92 (2) (b)

63	Total capital (as a percentage of total risk exposure amount)	18.7%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	7.01%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.5%	
66	of which: countercyclical buffer requirement	0.01%	
67	of which: systemic risk buffer requirement	0	
67a	of which: Global systemically Important Institution (G-SII) or Other Systemically Important Institution (-O-SII) buffer	0	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	8.9%	CRD 128
69	(non relevant in EU regulation)	0	
70	(non relevant in EU regulation)	0	
71	(non relevant in EU regulation)	0	
Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	15,921	36 (1) (h), 46, 45, 56 (c), 59, 60, 66 (c), 69, 70
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0	36 (1) (i), 45, 48
74	Empty set in the EU	0	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	0	36 (1) (c), 38, 48
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application to the cap)	0	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	0	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings based approach (prior to the application of the cap)	0	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings based approach	0	62

Own Funds Disclosure Template

Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	0	484 (3), 486 (2) & 5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	484 (3), 486 (2) & 5)
82	Current cap on AT1 instruments subject to phase out arrangements	0	484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase out arrangements	0	484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	484 (5), 486 (4) & (5)